

IMPORT RELIEF FOR THE SPECIALTY STEEL INDUSTRY

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
SECOND SESSION
ON
S. 2770 and S. 2771

SEPTEMBER 29, 1982

Printed for the use of the Committee on Finance



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IMPORT RELIEF FOR THE SPECIALTY STEEL INDUSTRY

WEDNESDAY, SEPTEMBER 29, 1982

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
Washington, D.C.

The committee met, pursuant to notice, at 2:55 p.m. in room 2221, Dirksen Senate Office Building, Hon. John Heinz presiding.
Present: Senator Heinz.

[The press release announcing the hearing, the prepared statement of Senator Heinz, and the committee staff paper follow:]

(1)

P R E S S R E L E A S E

FOR IMMEDIATE RELEASE
September 23, 1982

UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on Inter-
national Trade
2227 Dirksen Senate Office
Building

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE
SETS HEARING ON SPECIALTY STEEL BILLS

Senator John Danforth, Chairman of the Subcommittee on International Trade of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on Wednesday, September 29, 1982, at 1:30 p.m. on S. 2770 and S. 2771, bills to provide import relief for the specialty steel industry. The hearing will be held in Room 2221 Dirksen Senate Office Building.

Senator Danforth stated that testimony at this hearing would be received from invited witnesses only.

Written statements.--Witnesses who are not scheduled to make oral presentations, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Wednesday, October 13, 1982.

SENATOR JOHN HEINZ

SEPTEMBER 29, 1982

International Trade Subcommittee Hearing on Specialty Steel Import Quota Legislation

OPENING STATEMENT

The purpose of today's hearing is to confront the crisis in the American steel industry head on and to develop a program of immediate action to address its problems.

In doing so we will focus specifically on the specialty steel industry, the most sophisticated type of steel production, involving products developed to meet extremes of environment and stress. And we will focus on one solution that has already been proposed -- statutory import restraints, as contained in two bills I introduced earlier this year, S. 2770 and S. 2771.

In focusing particularly on specialty steel, however, we should also remember that the carbon steel industry is also in deep trouble, that the problems in many respects are similar, and that the solution I have proposed may be applicable in that case as well.

As our witnesses will point out, this is a uniquely critical industry. Its products form the most basic elements of our national defense and our industrial society. Machine tools, semiconductor devices, communications equipment, missile parts, gas and oil drilling equipment, and many other vital machines and components all have essential elements of specialty steel. Our economy could not have obtained the productivity and sophistication that it has without the specialty steel industry and its continuing investment in research, development and new technology. And it goes without

saying that we would not be in a position to defend our industry -- and our society -- without the contribution this industry has made to our national defense.

Yet the industry faces the worst crisis in its history. During its period of import relief, from 1976 to early 1980, 700,000 tons of new capacity were installed throughout the world. That new capacity has begun to appear in the form of increased imports here. Imports have risen steadily -- and sharply -- since the fourth quarter of 1980. In the first seven months of this year, imports increased more than 22 percent above the same period in 1981, while domestic production dropped by almost the same amount. Alloy tool steel and stainless wire rod have been particularly hard hit.

As always, however, the real issue is jobs. Unemployment in the specialty steel industry is over 30 percent. In the carbon steel industry there are more than 130,000 workers laid off and an additional 25,000 working shorter hours. Capacity utilization in the industry has hovered around 40 percent for much of this year.

Tragically, this is more than a temporary problem. Earlier this year Bethlehem Steel went out of the tool steel business entirely. Guterl Special Steel Corporation has filed for bankruptcy, as has McLouth Steel. Crucible Steel has almost completely shut down its plant in Midland, Pennsylvania, which normally employs 5,000 workers.

The conclusion is inescapable. Unless we act immediately we face the permanent loss of a significant portion of this critical industry. This will mean a tragic waste of manpower and resources that will hurt us for years to come.

To its credit, the industry is fighting back. It has filed five antidumping and countervailing duty cases West Germany, France, and Brazil. It will shortly file another such complaint. Last January a complaint under section 301 of the Trade Act of 1974 was filed with the U.S. Trade Representative alleging subsidizing by six countries. USTR has accepted five of those cases, but has not yet even begun its consultations with the other governments, despite the fact that the statute clearly requires them to begin that formal process the day the petition is accepted.

In short, we have had eight months of no progress, and the deadline is fast approaching. I was responsible for putting that deadline into the law in 1979, and I did so to insure quick action. It now appears that even statutory deadlines are not enough to move the government. The countervailing duty cases are also not moving through the process fast enough, having had their deadlines extended, despite the obvious crisis and despite unanimous ITC findings of injury in every one of them.

We rewrote our trade laws in 1979 to make them work quickly and efficiently. In the case of specialty steel, at least, the government apparently lacks the will to use the law as we intended. In that situation, Congress has no alternative but to take matters into its own hands and pass legislation providing import protection for this industry. To that end I have introduced two bills. S. 2770 provides explicit, statutory quotas on specialty steel products. S. 2771 provides a Congressional determination that the specialty steel industry has been injured within the meaning of our trade laws and directs the International Trade Commission to propose a remedy.

The bill then requires the President to implement that remedy.

Today's hearing is on these bills, and I hope witnesses will comment on them. I also expect, however, that the government witnesses will explain why their action to date has been so inadequate. Our trade laws can only function if they are credible. If industry does not believe the government is serious about enforcement against unfair trade practices, they will come to the Congress for relief. And believe me, the Congress will give it to them.

ROBERT J. GALE, KANS., CHAIRMAN

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United States Senate

COMMITTEE ON FINANCE
 WASHINGTON, D.C. 20510

ROBERT E. LEIGHTON, CHIEF CLERK
 MICHAEL STEIN, BUDGET STAFF DIRECTOR

TO: FINANCE COMMITTEE MEMBERS

FROM: FINANCE COMMITTEE TRADE STAFF

SUBJECT: HEARING WEDNESDAY, SEPTEMBER 29, 1:30 p.m., on S. 2770 and S. 2771, bills to provide import relief for the specialty steel industry

The Subcommittee on International Trade will hold a hearing on Wednesday, September 29, at 1:30 p.m. on S. 2770 and S. 2771, two bills introduced by Senator Heinz to restrict imports of specialty steel. The hearing will be in Room 2221 of the Dirksen Building. A witness list is attached.

Background.--Specialty steels comprise a category of steel alloy products distinguished by properties that make them especially hard and resistant to heat, corrosion, or abrasion. Because of these properties, specialty steels are widely used in such industries as the following: aircraft, communications, electronics, petroleum and chemical processing, tool making, and power generation.

U.S. specialty steel producers employ approximately 65,000 workers. The numerous independent producers are generally small compared to the basic carbon steel companies, and often produce only a few particular products. The U.S. specialty steel industry accounts for about 7.5 percent of the tonnage and 9 percent of the value of total domestic steel shipments. Imports account for approximately 20 percent of total specialty steel consumption. (See attached table). This proportion has increased somewhat in recent years. The major foreign suppliers are West Germany, Sweden, and France.

Pursuant to the safeguard provisions of section 201 of the 1974 Trade Act, the President established an import restraint program for specialty steel products in 1976 following an affirmative determination by the International Trade Commission (ITC) that increased imports constituted a substantial cause of serious injury. The program expired in 1980. The Commerce Department thereafter implemented a "surge mechanism" designed to identify rapidly increasing imports indicative of unfair pricing practices.

Last February the United States Trade Representative's Office initiated a case pursuant to section 301 of the 1974 Trade Act to determine whether imports from five countries are being unfairly subsidized contrary to the Subsidies Code. USTR recently requested consultations with the countries involved pursuant to the Code's provisions. A number of countervailing

duty and antidumping duty cases that involve specialty steel products also are pending in the Department of Commerce. Preliminary or final determinations on all of these cases are expected from October to January, depending on the case.

S. 2770.--This bill would establish quantitative limitations, for a period not less than five years, on imports of stainless steel and alloy tool steel. The Secretary of Commerce would set the import levels every six months based on the previous year's consumption of the domestic markets and import shares for each product as set forth in the bill. The bill further authorizes the President to negotiate bilateral restraint agreements within the overall levels for each product. To protect regional markets, the Secretary can regulate imports in particular ports of entry. The restrictions imposed by the Act would continue indefinitely beyond five years unless Congress acts on a recommendation from the Secretary, after hearings, that the limitations should be modified or revoked.

S. 2771.--This bill, for the same products covered by S. 2770, would substitute an affirmative Congressional determination for that normally required of the ITC under section 201(b)(1) of the Trade Act of 1974; for example, that increased specialty steel imports are a substantial cause of serious injury to the domestic industry. It further would require the President to impose whatever import relief the ITC recommends based on that determination.

Under normal procedures, the ITC takes up to six months to conduct an investigation, including a public hearing, after accepting a petition for escape clause action. The industry received import relief from 1976-1980 on the basis of such an investigation.

Attachment

SPECIALTY STEEL IMPORTS (thousands of short tons)

	Domestic Shipments			Imports			Total imports as % of total Consumption
	Stainless Steel	Tool Steels	Total	Stainless Steel	Tool Steel	Total	
1977	1118	85	1203	178	39	217	16.2
1978	1191	92	1283	200	47	247	17.0
1979	1361	95	1456	169	64	233	14.6
1980	1127	79	1206	153	51	204	16.0
1981	1163	67	1230	191	68	259	18.5
1-2Q1982	495	27	522	114	30	144	22.6

Source: International Trade Commission

Senator HEINZ. The purpose of today's hearing is to confront the crisis in the American steel industry—to confront it head on—and to develop a program of immediate action to address its problems.

In doing so we will focus specifically today on the specialty steel industry, the most sophisticated type of steel production, involving products developed to meet extremes of environment and stress. And we will focus on one solution that has already been proposed—statutory import restraints, as contained in two different bills I introduced earlier this year, S. 2770 and S. 2771.

In focusing specifically and particularly on specialty steel, however, we should also remember that the carbon steel industry is also in very deep trouble, and that the problems in many respects are similar, and that the solution I have proposed may be applicable in that case as well.

As I am sure our witnesses will point out, this is a uniquely critical industry. Its products form the most basic elements of our national defense and our industrial society. Machine tools, turbines, transformers, semiconductor devices and so forth all have essential elements of specialty steel. Our economy could not have had obtained the degree of productivity and sophistication that it has without the effort of the specialty steel industry, and its continuing investment in research, development, and new technology.

It goes without saying that we would not be in a position to defend our society without the contribution this industry has made to our national defense. Yet, this industry faces the worst crisis in its history. During its period of import relief begun by President Ford from 1976 to early 1980, 700,000 tons of new capacity were installed throughout the world. That new capacity has begun to appear in the form of increased imports here. Imports, as we know, have risen steadily and sharply since the fourth quarter of 1980. In the first 7 months of this year, imports increased more than 22 percent above the same period in 1981, while domestic production dropped by almost the same amount. Alloy tool steel and stainless wire rod have been particularly hard hit.

As always, the real issue is jobs. Unemployment in the specialty steel industry is over 30 percent. In the carbon steel industry there are more than 130,000 workers laid off and an additional 25,000 working shorter hours. Capacity utilization in industry has hovered around 40 percent for much of this year.

Tragically, this is more than a temporary problem. Earlier this year Bethlehem Steel went out of the tool steel business entirely. Guterl Special Steel Corp. has filed for bankruptcy, as has McLouth Steel. Crucible Steel has almost completely shut down its plant in Midland, Pa., which normally employs 5,000 workers.

The conclusion, therefore, is inescapable. Unless we act immediately, we face the permanent loss of a significant portion of this critical industry. And that will mean a tragic waste of manpower and resources that will hurt us for years to come.

To its credit, the industry is fighting back. It has filed five anti-dumping and countervailing duty cases against West Germany, France, and Brazil. It will shortly, I am told, file another such complaint. Last January, a complaint under section 301 of the 1974 Trade Act was filed with the USTR alleging subsidizing by six countries. USTR accepted five of those six cases, but has not yet

even begun its consultations with the other governments, despite the fact that the statute clearly requires them to begin that formal process the day the petition is accepted.

In short, we have had 8 months of no progress, and the deadline is fast approaching. I was responsible for putting that deadline into the 1979 Trade Act. And I did so to insure quick action. It now appears that even statutory deadlines are not enough to move the Government. The countervailing duty cases are also not moving through the process fast enough, having had their deadlines extended, despite the obvious crisis and despite unanimous ITC findings of injury in every one of them.

We rewrote our trade laws in 1979 to make them work quickly and effectively. In the case of specialty steel, at least, the Government apparently lacks the will to use the law as we intended. In that situation, Congress has no alternative but to take matters into its own hands and pass legislation providing import protection for this industry. And it is to that end that I introduced S. 2770 in order to provide explicit statutory quotas on specialty steel products. S. 2771 provides a congressional determination that the specialty steel industry has been injured, as should be obvious to all, within the meaning of our trade laws, and directs the International Trade Commission to propose a remedy.

The bill then requires the President to implement that remedy. And in doing so, by the way, it eliminates his normal discretion in section 201 not to do so.

Today's hearing is on these bills, and I hope witnesses will comment on them. I also expect, however, that the Government witnesses will explain why their action to date has been so inadequate. Our trade laws can function, gentlemen, only if they are credible. If industry does not believe the Government is serious about enforcing our laws against unfair trade practices, they will come to Congress for relief. And if they don't come to Congress for relief, it will mean that they have given up entirely on our Government and on the international agreements that are supposed to protect efficient producers against those who are inefficient producers. And believe me anybody who is being subsidized in order to compete has to be an inefficient producer.

Believe me also that if we do fail, if our Government does fail, if the administration itself fails to support and utilize our trade laws, Congress will, indeed, act.

We have a number of witnesses today. I know that Lionel Olmer and Dave Macdonald, our Deputy USTR in the latter case, and Under Secretary of Commerce in the first case had to leave, but we have a very knowledgeable panel of associates who have been able to remain behind.

Gentlemen, would you introduce yourselves and proceed?

STATEMENT OF GARY N. HORLICK, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR IMPORT ADMINISTRATION, ON BEHALF OF HON. LIONEL H. OLMER

Mr. HORLICK. Thank you, Senator Heinz. I will briefly summarize Under Secretary Olmer's testimony.

My name is Gary Horlick. I am Deputy Assistant Secretary of Commerce for Import Administration. Then, Michael Hathaway, Deputy General Counsel to the U.S. Trade Representative will summarize Mr. Macdonald's statement.

We both thank you for the opportunity to appear before this committee. This administration is acutely sensitive to the specialty steel industry's current problem, and I would like to describe the efforts we have made to respond to the industry's concern.

The specialty steel industry has faced aggressive competition from imports over the last 2 years. The total tonnage of specialty steel imported during 1981 was 36 percent higher than during 1980. Import penetration in the first quarter of 1982 reached 23.6 percent of the U.S. market, although subsequently declined to 18.6 percent of the U.S. market for the second quarter of 1982.

At present, the Department of Commerce is investigating four antidumping and five countervailing duty cases involving specialty steel imports, and the Office of the U.S. Trade Representative is investigating another 27 product-country combinations in response to petitions filed under section 301 of the Trade Act of 1974, as amended.

Together, these antidumping, countervailing duty, and section 301 cases cover 59 percent of all specialty steel imports in 1981.

Since January 20, when the specialty steel industry filed its first petition with the Department of Commerce, we have initiated all nine petitions filed by the industry, and we stand ready to act on any additional petitions which may be filed.

In April 1981, we initiated five surge reviews on two product lines under the then recently instituted surge mechanism. All of those surges subsequently abated. Imports after that began to increase sharply, and we increased the number of surge reviews. At the same time the industry began filing its own petitions, beginning with the section 301 petitions filed originally December 2, 1981.

Starting in September 1981, we asked domestic producers to share with us any home market price information on foreign countries that they might have available to them in connection with the surge review which we were conducting on imports of alloy tool steel from West Germany. Following that, we asked for information in developing a cost model for West German producers. This is not information that the Commerce Department would have readily available.

Our producers developed a cost model and included it in their petition, which was filed July 30 and initiated August 19 of this year.

In addition, we have undertaken a special study of certain product-country combinations that our industry singled out as being of special concern to them, and we conducted an exhaustive review of over 300 import invoices. In June of this year we forwarded to the industry a questionnaire regarding potential information which might show injury on those products. We received responses to some of those questions earlier this month, but are still waiting for the information on lost sales for the combinations listed in our request. We hope and we understand that that information will be made available soon.

In summary, of the 17 separate product-country combinations in which we detected surges, 7 have abated, 5 have been preempted by industry petitions, and 5 are still under review. For some situations, as I mentioned, we are still awaiting some of the injury information relating to lost sales to the U.S. industry.

We have devoted an enormous amount of staff time and resources monitoring specialty steel imports. We've worked with the specialty steel industry to help it develop information which it could use to evaluate its position. And, of course, our determinations of subsidization on carbon steel producers can and have served as the basis for petitions on specialty steel imports from the same producers.

We do not believe that the legislation before us is appropriate. These bills, if enacted, would be inconsistent with our international obligations under the General Agreements on Tariffs and Trade [the GATT] and would require compensation to the foreign countries involved of an equivalent dollar value of concessions on other products which they sell us, or permit retaliation against our exports.

Further, such arbitrary trade actions would seriously threaten the world trading system from which U.S. industries and consumers benefit. Existing U.S. statutes provide U.S. industries with means of obtaining relief from injurious and unfair trade practices.

As I have described, cases filed by the specialty steel industry are currently being processed and we will provide relief where the requirements of the statute are satisfied.

I would like to conclude by reemphasizing that last point. We do take the laws which Congress passed in 1979 very seriously. On antidumping and countervailing duty cases, we, in the last year, have met every single deadline. These are complicated cases. And we recognize the frustration which the industry must feel. The bulk of the cases filed by the specialty industry were filed in April or June of this year. On countervailing duty cases we provide provisional relief, withholding of an amount equal to the provisional subsidy, within 5 months of the date of filing. And that's a lot better than you usually do in court. So we do take seriously your concern, Senator, and we try to follow up on the excellent work which, in my opinion, you did in 1979.

Senator HEINZ. Mr. Horlick, thank you very much.

[The prepared statement of Mr. Olmer follows:]

Testimony of Lionel H. Olmer
Under Secretary for International Trade
Before the Senate Finance Committee
September 29, 1982

Mr. Chairman, thank you for this opportunity to discuss S.2770 and S.2771, two bills designed to provide import relief for the specialty steel industry. This Administration is acutely sensitive to the specialty steel industry's current problems and to the high level of specialty steel imports during 1981 and early 1982. I would like to describe the efforts we have made to respond to the industry's concerns.

The President's economic recovery program is intended to spur investment throughout the economy; as this develops, the specialty steel sector will benefit both directly and indirectly. Secondly, the President supported and signed legislation last year permitting deferral of certain environmental compliance deadlines for qualifying steel companies. In addition, the Administration agreed that the steel industry, as a whole, should be exempted from some of the restrictions on safe harbor leasing included in the tax package recently passed by Congress.

As the economic recovery program progresses, its stimulative effects, combined with vigorous enforcement of our trade laws, to which we have been committed for the past 20 months, will provide the basis for revitalizing our basic industries, including the specialty steel

industry. The dampening of inflation and continuing decline in interest rates are encouraging signs. Once the recovery is firmly under way, specialty steel firms should be in an excellent position to benefit from a promising, long-term growth in demand for their sophisticated products.

Specialty Steel Imports

The specialty steel industry has faced aggressive competition from imports over the past two years. The total tonnage of specialty steel imported during 1981 was 36.1 percent higher than during 1980. In the fourth quarters of 1980 and 1981, imports took 11.1 and 23.2 percent, respectively, of the U.S. market, but the situation is gradually improving. Import penetration decreased from 23.6 percent in the first quarter of 1982 to 18.6 percent of the U.S. market in the second quarter and 18.0 percent in July.

AD/CVD and 301 Cases

The Department of Commerce is investigating four antidumping and five countervailing duty cases involving specialty steel imports, and the Office of the United States Trade Representative (USTR) is investigating another 27 product/country combinations in response to petitions filed under Section 301 of the Trade Act of 1974, as amended. Together the Commerce Department and USTR cases cover 59

percent of all specialty steel imports. Since January 20, when the specialty steel industry filed its first petition with the Department of Commerce, we have initiated all nine petitions filed by the industry. We stand ready to act on any additional petitions the industry files and we have consistently advised the U.S. industry that we are prepared to do so.

The four antidumping investigations being conducted by the Department of Commerce cover stainless pipe and tube from Japan, stainless sheet and strip from France and West Germany, and alloy tool steel from West Germany. Countervailing duty investigations cover bar and rod from Spain and from Brazil, and alloy tool steel from Brazil. USTR is conducting Section 301 investigations on imports of stainless steel flat rolled products, bar, rod, and alloy tool steel from Austria, France, Italy, Sweden, and the United Kingdom, and sheet, strip, and rod from Belgium.

The Department of Commerce has already made preliminary determinations in two cases. In an antidumping case against Japanese pipe and tube, we found margins ranging up to 10.14 percent. Our final determination on this case will be issued by November 1st. The preliminary determinations in the countervailing duty investigations of stainless steel bar and rod from Spain revealed subsidy rates ranging up to 6.61 percent. Members of my staff have just returned from verifying the records of the Spanish producers of stainless steel bar and rod, and the government. We will be issuing our final determinations on this case by November 8th.

Within the next two months, we will issue preliminary determinations on petitions covering stainless steel sheet and strip from West Germany and bar and rod from Brazil. We have met, and will continue to meet, all of the statutory deadlines for making these determinations.

Specialty Steel Surge Mechanism

On January 8, 1981, the Department of Commerce established the Specialty Steel Surge Mechanism. This system requires the Department to monitor specialty steel imports by product line to identify marked increases in imports that have occurred in order to evaluate whether any surges may have resulted from unfair trade practices.

A surge review typically includes discussions with both the foreign government and the foreign producer, a review of available information on the foreign producer, and inquiries through our embassies. It also includes discussions with the affected U.S. producers to see what information they might have that would otherwise be unavailable to us (such as data on injury, and foreign price information on specific grades of specialty steel items). In April 1981, we initiated five surge reviews in two product lines, but all of those subsequently abated. As imports increased sharply, we increased the number of surge reviews, but at the same time the industry began filing petitions, beginning with the Section 301 petition filed originally on December 2, 1981.

Starting in September of last year, we asked domestic producers to share with us any home market price information which might be available to them in connection with a surge review which we were conducting of imports of alloy tool steel from West Germany. Failing that, we asked for assistance in developing a cost model for West German producers. Our producers developed a cost model and included it in a petition filed on July 30th which was formally initiated by the Department on August 19th.

We have also undertaken a special study of certain product/country combinations of concern to our industry and conducted an exhaustive review of over 300 import invoices. In June of this year we forwarded a questionnaire to the industry regarding injury information for these products. We received a partial response earlier this month, but as yet have received no information on lost sales for the product/country combinations listed in our request. We hope that this information will be made available soon.

Under the surge mechanism, the Department is currently conducting surge reviews on imports of stainless steel sheet and strip from Spain and rod from the Federal Republic of Germany, as well as pipe and tube imports from Austria, Italy and Korea. Although we announced a surge review on imports of alloy tool steel from Brazil and the Federal Republic of Germany, these reviews were discontinued upon the Department's initiation on August 19 of a countervailing

duty petition filed by the industry against Brazil and an antidumping case against West Germany. The results of the current surge reviews will be available during October. Certain information is still being gathered overseas through our embassies, and additional responses are still due from foreign producers through their governments.

In summary, of the 17 separate product/country combination surges we have examined, seven have abated, five have been pre-empted by industry petitions, and five are still under review. For some situations, we are still awaiting certain injury information relating to lost sales from the U.S. industry, and we are currently reviewing some information received recently on pricing conditions. We have devoted an enormous amount of staff time and resources to monitoring specialty steel imports. We have worked with the specialty steel industry to help it develop information which it could use to evaluate its position, and of course our determinations of subsidization on carbon steel products can and have served as the basis for petitions on specialty steel imports from the same producers.

We are now conducting 54 antidumping and countervailing duty investigations of steel imports from 16 countries. Another 27 countervailing duty investigations were concluded on August 24 when the Department of Commerce found that steel imports from six countries benefitted from government subsidies ranging from zero to

21 percent of the f.o.b. import value. The International Trade Commission must now finally determine whether these imports are injuring, or threaten to injure, the domestic industry. For each case in which an affirmative determination is made, the appropriate countervailing duties will be collected.

We do not believe that the legislation before us is appropriate. These bills, if enacted, would be inconsistent with our international obligations under the General Agreements on Tariffs and Trade (GATT) and would require compensation to the foreign countries involved of an equivalent dollar value of concessions on other products which they sell us, or permit retaliation against our exports. Further, such arbitrary trade actions would seriously threaten the world trading system from which U.S. industries and consumers benefit. Existing U.S. statutes provide U.S. industries with means of obtaining relief from injurious and unfair trade practices. Indeed, the specialty steel industry received such relief through the ITC from 1976 until 1980. As I have described, cases filed by the specialty steel industry are currently being processed and we will provide relief where the requirements of the statute are satisfied.

STATEMENT OF C. MICHAEL HATHAWAY, DEPUTY GENERAL COUNSEL, U.S. TRADE REPRESENTATIVE'S OFFICE, ON BEHALF OF HON. DAVID R. MACDONALD

Mr. HATHAWAY. Mr. Chairman, I am Mike Hathaway, Deputy General Counsel in the U.S. Trade Representative's office. I have Ambassador Macdonald's statement.

Senator HEINZ. Without objection, both his statement and the full statement of Lionel Olmer will be put in the record in their entirety.

Mr. HATHAWAY. I wanted, if I could, to briefly summarize Ambassador Macdonald's statement.

Senator HEINZ. Please do proceed.

Mr. HATHAWAY. The very deep and shared concern about the state of the specialty steel industry prompted your introduction of the legislation that is the subject of the hearings today. I think we should say in the beginning that the legislation itself is well intentioned. There is an honest debate about whether the action that is being taken by the Government now is sufficient to make that legislation unnecessary. In our view, the action is sufficient.

We have specialty steel now the subject of section 301 investigation. We have requested consultations with the European communities on the basis of a complaint which was initially filed in January and accepted in late February. There has been, at least I think in the industry's view, a very long period of time before the formal consultations will take place. But I do not believe there is anything known to us that would lead us to believe that we have not acted in the best interest of the industry in taking the time that we have to proceed formally in the case.

The initial petitions that were filed needed a substantial amount of additional work. You know this, Senator Heinz, because you were involved with Ambassador Brock in the decision of how these cases should be handled initially. It was our judgment, at that time, that it was in the best interest of our success in the cases for us to make these petitions reflect the best case we could put forward.

The Government also had parallel investigations pending on the same subsidy practices in Commerce's countervailing cases. We did not have final determinations on those cases until August. The request for consultation to be submitted to the GATT was then revised to reflect what came from those Commerce Department investigations. We feel our request has now been very substantially improved, and we are planning to prosecute those cases in the GATT vigorously.

We believe we have a very good record of enforcing section 301. We have more cases pending now under section 301 than there has been in the history of GATT. Much of this has come from the interest of the administration and the Congress through the Trade Agreements Act of 1979, an act through which you were instrumental in helping these trade laws get shaped in a way that helps our industries address problems that are caused by foreign subsidies, foreign unfair trade practices.

We have, though, some difficulties with the time limits in 301. We should commend you and your colleagues on the Finance Com-

mittee for the efforts that have been made in the reciprocity legislation to address that particular problem of having too short a time to analyze and prepare for consultations. Having some flexibility built into the time limits will be helpful. I hope that that legislation is successful. Many of the problems that we have encountered in 301 cases, which were encountered in the specialty steel cases as well, would be substantially, if not completely, remedied by the enactment of legislation that makes a more realistic parallel between domestic law and the international process.

Ambassador Macdonald's statement covers many of the points which you have raised about what has happened, and why it has happened, in the specialty steel cases. Without taking more time to go through each of those points, I will leave that for the record. If you have additional questions, we will be happy to answer them. [The prepared statement of Mr. Macdonald follows:]

Statement of
Ambassador David R. Macdonald
before the
Trade Subcommittee
Senate Finance Committee
September 29, 1982

Mr. Chairman and Members of the Subcommittee:

I appreciated the invitation to appear today to comment on S. 2770 and S. 2771, two bills to provide import relief for the specialty steel industry which were introduced recently by Senator John Heinz of Pennsylvania.

I know that the deep concern about the state of the U.S. specialty steel industry which prompted Senator Heinz to introduce this legislation is shared by everyone in this room. The extremely low levels of operating capacity (in the case of alloy tool steel 35 percent during the first half of 1982) and successive quarters of balance sheet losses are alarming. Certainly they cannot be long endured if the industry is to survive. Already the shake-out among producers has commenced: Bethlehem's withdrawal from tool steel production, Guterl's bankruptcy and Colt's decision to close permanently its Crucible facilities may only be the tip of the iceberg; according to industry observers more closures are to follow. Nor can anyone fail to

be deeply moved by the high human costs involved in these closures and numerous temporary lay-offs and reduced workweeks.

We all understood that the process of getting the U.S. economy back to a state of healthy inflation-free growth was going to be difficult and protracted, and indeed it has been. Americans have been willing to carry this burden because we have become convinced that the short term adjustment pains will pay off handsomely for many years to come. Like the President, I believe we have finally turned the economic corner and that a firm basis for a sound recovery has been laid, which will aid the specialty steel and every other U.S. industry in the months and years ahead.

If we are going to force our producers to face foreign competition without government financial assistance and to succeed or fail on their own resources, we owe it to them to ensure that imports compete for our market on an equal footing. Our aim is to eliminate, in so far as we are able, the distortive effects of government interference in the market. If we concerned ourselves only with the effects of U.S. Government policies on our market, we would be naive indeed. Such a course could undermine the objectives of economic efficiency that we seek and in effect would let others who are more interventionist dictate industry policy to us, merely because we seek to keep our market open to the beneficial effects of international competition.

Compliance with antidumping and antisubsidy laws are the price of admission to an open market. That concept of equity underlies the GATT itself. We will not prescribe adjustment measures for any one else, but by the same token we cannot accept that others shift the burden of adjustment onto our producers and our workers. Thus, vigorous enforcement of our fair trade laws must be viewed as an essential element in our overall economic recovery strategy. It is central to our effort to get the whole of our economic house in order.

Today, my comments about the proposed specialty steel legislation will focus on three areas. First, I will discuss the positive steps which the Administration is currently taking to deal with the trade-related problems of the specialty steel industry. Second, I want to discuss the approach which the bills take in light of the steps which are currently underway; and third, I want to review USTR's procedural problems with these bills.

This request to testify comes at a positive point in our efforts to deal with specialty steel import problems. As my colleague from Commerce points out, the Department of Commerce and the U.S. International Trade Commission (USITC) are currently handling specialty steel cases under both antidumping and countervailing duty statutes.

Additionally, it should be remembered that specialty steel products were specifically subject to the negotiations which led up to the Arrangement worked out between the European Commission and the Department of Commerce. In the agreement the EC committed itself to consult "to discuss any matters, including trends in the importation of steel products, which impair or threaten to impair the attainment of the objectives of this Arrangement." Unfortunately, the final agreement did not include alloy tool steel nor stainless rod and bar.

While the cases at the Department of Commerce and the U.S. International Trade Commission have been proceeding, the Office of the USTR has also been processing specialty steel complaints filed by the Tool and Stainless Steel Industry Committee and the United Steelworkers of America on January 12. These include section 301 petitions alleging that the governments of the United Kingdom, France, Belgium, Italy, Sweden, Brazil, and Austria are granting production subsidies in a manner inconsistent with Articles 8 and 11 of the Subsidies Code. On February 26 we accepted for further investigation the bare-boned complaints against all cited countries except Belgium and Brazil. The Belgium case was rejected because no evidence was supplied regarding subsidies to those producers which export to the United States, while the latter was rejected because its subsidies could not be challenged under the dispute settlement provisions of the Code in view of of Brazil's commitment to

phase out its export subsidies. The industry committee resubmitted a petition against Belgium on June 23 which was accepted August 9. Our recommendation to the President as to what, if any, actions he should take with respect to each of these countries is due by October 26. (The recommendation on Belgium must be made no later than March 9, 1983.)

As a result of the difficulties which the specialty steel industry committee encountered in developing adequate subsidy information, the cases we accepted were inadequately documented. At the time USTR accepted these petitions we were very concerned with the lack of specific information concerning many of the subsidy allegations. As you know, under the dispute settlement rules of the Subsidies Code, consultations concerning the grant of domestic subsidies must be completed within 60 days. For this reason the party requesting consultations is required to provide specific information about the nature of the subsidies and their effects on that party's domestic industry. The specialty steel petition did not contain sufficient information to frame an appropriate consultation request. This problem was discussed at the February 26 meeting with the petitioners which Senator Heinz and Bill Reinsch of his staff attended. It was decided at that meeting that while we would initiate the investigation, we would postpone requesting formal consultations under the Code until we could fill the gaps in our information. This procedure was acceptable to the industry. Frankly, our only alternative was to reject the petition.

In previous testimony before this Subcommittee, Ambassador Brock has discussed the disadvantageous position in which we are placed in being required to institute dispute settlement proceedings at the same time we are initiating an investigation. This problem is typified by the specialty steel cases in which the domestic industry was unable to sufficiently document their complaint. Recognition of this problem is reflected in the reciprocity bill reported out by this Committee. That bill contains a provision proposed by Senator Heinz which provides USTR with a 90-day period after the initiation of a 301 investigation to prepare an appropriate consultation request under the GATT or the Codes. We appreciate the Senator's efforts in this regard and believe that this provision will go a long way towards resolving this problem in future cases.

In line with the decision described above, we initiated informal consultations with the five countries which were held in March. We also scheduled a public hearing. We had originally intended to schedule this hearing during the third week of March; however, the petitioners asked that it be postponed so a key industry representative would be available to testify. Consequently, we held the hearing on April 14 and received rebuttals on April 30. Relatively little additional information concerning the alleged subsidy practices was developed during this hearing. Therefore,

it was necessary to seek further information regarding the foreign subsidy practices which we gleaned from informal consultations, embassy reporting cables, annual reports obtained for foreign producers, and Commerce's preliminary and final determination.

In addition, many of the subsidy practices alleged against Italy, France, and the United Kingdom were also the subject of the CVD cases pending in the Department of Commerce. It was decided that it would be in the best interests of our case to formulate our request for consultations after the Commerce Department had determined whether or not they were subsidies. It would have undermined our case if, in the context of our consultation request, we complained of practices that Commerce subsequently determined not to be illegal subsidies or if we failed to include a practice found by Commerce to be a subsidy in our own GATT complaint. Thus, the decision was made to postpone further action until Commerce made its decision. The industry, of course, was informed of our decision. At that same time a broader resolution to the steel cases was being discussed between the United States and the European Communities.

We had reason to believe that the problems of specialty steel would be included in the negotiated resolution of the steel cases then pending at the Commerce Department. Formal pursuit of the 301 cases at that time was judged not to be in our industry's interest.

In light of the delay in reaching a negotiated settlement, and the decreased likelihood of the settlement including the 301 specialty steel cases, we decided to formally pursue our 301 case. Therefore, last week we requested consultations under the Subsidies Code with all six countries for the week of October 4. A copy of those requests has been submitted to the Subcommittee on a confidential basis. I think you will find, and I believe the industry will agree, that the time since the petitions were filed has been well used to improve substantially the original petitions. The subsidy practices of each of the countries involved have now been identified with specificity. This will improve our chances of a fair and successful resolution of the dispute settlement proceedings.

According to the timetable specified in the Subsidies Code, consultations can take up to 60 days. At the end of that time the United States can request conciliation if the problem which caused us to make our formal request has not been resolved, and 30 days later we can ask that a panel be established. The establishment of a panel, its consideration of the facts involved, and its report to the Code Committee can then take four more months. From the above it is obvious that the GATT procedures cannot be completed before our deadline for a Presidential recommendation is due October 26. At this juncture, it is impossible to prejudge what our recommendation will be since this depends, among other things, on how our consultations go and the likelihood of a satisfactory settlement.

Obviously, the general point I have been trying to make is that meaningful statutory activity is taking place on a number of fronts and that while S. 2770 and S. 2771 are well-intentioned, the actions proposed are unnecessary. It seems to me that the Administration has clearly demonstrated its resolve to aid the industry in the actions it has taken to date.

It is our feeling that the aggressive use of U.S. trade laws which these actions represent is preferable to the approaches advocated in the subject legislation for several additional reasons:

First, the bills are excessively broad in scope. They go far beyond the purview of the cases which the specialty steel industry itself has felt necessary to file and would affect countries and products which fall outside the concerns raised by the industry. In this regard, it should be remembered that the industry has had the legal right to file an escape clause case since last February, if it felt that fair import injury was its problem. The fact that it has not chosen to do so certainly argues that Congressional action which would affect the same thing is unwarranted. Nor is the argument that this Administration is unlikely to impose section 201 import relief substantiated by the record.

Second, S. 2771 directly, and S. 2770 by inference would represent a circumvention of the escape clause provision (section 201) in almost every respect. Obviously, it is dangerous precedentially. Moreover, it ignores the U.S. International Trade Commission process of injury determination. Inasmuch as the injury standards under antidumping and CVD statutes are significantly different than those imposed under section 201, USITC findings of injury under these statutes are not adequate to justify circumvention of a finding of serious injury. The bills would also impose on the President a remedy developed by the USITC, thereby removing his discretion in such cases. The bills would prevent adequate analyses of the impact of such action on U.S. economic interests, on the effect of the relief on downstream user industries and on U.S. international economic interests. Moreover, they are essentially open-ended and make inadequate provision for termination of relief.

For these and other reasons we do not feel that the passage of either S. 2770 or S. 2771 is advisable.

Mr. Chairman, I thank you for your attention.

Senator HEINZ. Let me ask you one question on the 301. I first met with Ambassador Brock and USTR staff with the industry in January. And we discussed the filing of 301 cases. There was another meeting in February. As a matter of fact, it was a meeting when the industry had already sent you the 301 cases. And we discussed what needed to be done before the USTR would accept those cases. Ultimately, after another period of a number of weeks, and finally the USTR did accept those cases. And because we discussed it, I know full well that USTR understood the Trade Act of 1979, and that it required that simultaneously with or immediately thereafter, as you interpret the language, consultations are to begin with those people cited in the petition as engaging in unfair trade practices.

Now my understanding is that although the USTR, your agency, did accept five of those cases, that you have not yet begun consultations with the other governments. Is that correct or incorrect?

Mr. HATHAWAY. No. That's incorrect. At the time those petitions were filed—and I know you left the meeting for another meeting before it was completely resolved—there was agreement between our office and the domestic industry of how we would proceed at that stage. We did immediately request consultations. They were informal consultations. They weren't the formal consultations under the dispute settlement procedures of the Code.

The reason we were in that particular situation was because the petitions needed additional information. The petitioners provided a very large bulk of information almost immediately before the 45-day limit. There wasn't sufficient time to analyze that information. Later, it was discovered that we needed even more information. There were things that came as a result of the Commerce negotiations on an overall steel agreement, and on the subsidy cases, which led to further improvements in the petitions. So we have been consulting informally. There were hopes that the specialty steel industry problems could be solved in a broader agreement covering steel. We have now moved to the formal process. But it is not accurate that we have had no consultations and no movement on the cases since they were filed.

Senator HEINZ. The term "consultations," as it is understood in the GATT, is a formal notification. I'm not being critical of you for having had informal conferences with those people mentioned in the petition, but I guess my real question is have you had official consultations?

Mr. HATHAWAY. We have requested those consultations for the week of October 4. We have not yet confirmed the date with the European Communities, but those official consultations have been requested, and on the basis of a substantially improved petition.

Senator HEINZ. All right. So what you are saying in answer to my first question is not yes, we have had consultation; it's no we haven't, since we accepted the petitions in February, had consultations within the meaning of the statute, but we have not had them for good reasons.

Mr. HATHAWAY. Good reasons.

Senator HEINZ. Which good reasons, you state, are that you needed additional information from the industry to do a better job

in your consultations on their behalf. Is that an accurate statement?

Mr. HATHAWAY. That's right. The way the GATT system works, of which I am sure you are aware, you don't have the opportunity, once you start the process, of continually starting over without damaging your chances of success. We wanted to present the best case we could when we presented it.

And certainly when we made that initial decision not to request formal consultations, that was something that the industry was aware of and supported. There may be some debate as to whether we should have requested these consultations 3 or 4 weeks ago, but not when the cases were initiated. But it's a very small difference of time.

Senator HEINZ. Well, may I say, Mr. Hathaway, I suppose the difference of 3 or 4 or 5 or 6 weeks may be a modest difference in the giant bureaucracy of Washington, D.C. Indeed, it does take a long time in any agency or even here in Congress to get anything done. It's often much more than 5 or 6 weeks. It's often 5 years, let alone 5 months. But let me also remind you that this is an industry where 5 weeks may make the difference between a company closing and a company staying in business; between 1,000 or 5,000, in the case of Crucible Steel, people losing their jobs. And not temporarily, but permanently.

I mentioned in my opening statement a number of companies that have filed chapter 11's. It's highly unlikely, although hope springs eternal for us all, that some solution will be found to get those facilities back operating and the people who depend upon those companies for a living, their jobs back. And to restore some life to those communities.

So the difference of 5 or 6 or 7 weeks may not seem like a lot here in Washington, D.C., but it may mean economic life or death. It may mean total destruction of a family's hopes and a community's expectations of being able to survive in the rest of the world. And, particularly, in States like Pennsylvania and Ohio.

[Pause.]

Senator HEINZ. Excuse me. We have the supplemental appropriations bill on the Senate floor, and there are about half a dozen amendments that I am personally involved with today. And this was one of them. I apologize for interrupting the testimony.

We will wait and see how the 301 cases come out. [Laughter.]

Mr. HATHAWAY. Senator, I wanted to point out that—when I said that there was some debate on when the formal consultation should have been requested—I didn't mean to imply in any way that there had been a delay of 3 or 4 or 5 or 6 weeks longer than what we felt was necessary to put the best case forward. There wasn't an unnecessary delay.

The point I was trying to make is that the time when we could have reasonably made any request for formal consultations would not have been until at least some time in August.

Senator HEINZ. And maybe Gary Horlick can be helpful here. My understanding is that it would have been entirely appropriate for USTR to initiate a request for consultations when the offer by the European steel community on the countervailing duty cases was rejected by the industry back in August. And, indeed, it is my under-

standing—maybe Mr. Horlick would speak to this—that most specialty steel products were not covered in what was presented to the industry by the Europeans. And, indeed, at no time in any of the discussions has specialty bar, specialty rod or alloy tool steel been suggested by the Europeans as something they are going to cover. And, indeed, I would like to hear on the remaining items; namely, flat rolled, what the story has been on that because those are the four principal categories involved here.

Mr. HORLICK. In the arrangement which was proposed in August, there were included the flat rolled specialty steel products—stainless steel sheets, strip and plate. Those are made by a few large producers within Europe, over which the EC can, as a government, exercise some control. The arrangement involved export licensing and, therefore, very detailed control. The European Community representatives have indicated that they don't feel they can guarantee that type of detailed control over the numerous small, frequently independent producers who manufacture specialty items such as alloy tool steel. We have confirmed, by the way, that the products like specialty tool steel are made by numerous small producers in Europe, from invoices.

There is an additional consideration which is that the cases against them were filed somewhat later. We have told the Europeans at every conceivable opportunity—the Secretary has, the Under Secretary has. They point out very firmly that no matter what is done on carbon steel, they are still faced with a situation of at least nine antidumping and countervailing duty cases. Not all against the EC, but they have some against the EC. And the 301 cases, they are on the docket. Those aren't going to go away simply because carbon steel is resolved.

So we have told them very firmly that they have a real problem in specialty steel. And that we feel something should be done about it. It's a difficult situation. Flat-rolled is easier to control simply because there are fewer producers, some of whom, I might add, are already on the hook with respect to the carbon steel cases and, therefore, more amenable to some arrangement.

Senator HEINZ. Well, my point is that even if the industry had said yes to the offer back in August, and it was the middle of August, a good 6 weeks ago, the most troubled categories—bar, rod and alloy tool steel—would not in any event have been covered. So my question I posed to Mr. Hathaway is why couldn't we have at least requested consultation at that point. I think it has been made clear by the comments made by Gary Horlick that there was never any possibility that these particular specialty items would ever be covered in any agreement with Mr. Davignon and company.

Mr. HORLICK. You raised a good point, Senator. I should point out that there were discussions about how something could be done about the others that wasn't export licensing. They said they couldn't do export licensing. Discussions have continued in large part because Secretary Baldrige and Under Secretary Olmer have consistently pointed out before August and after August that something had to be done about all the specialty steel products on which 301 or antidumping or countervailing cases had been filed. So discussions didn't rule out doing anything. But we have continually put the case to the Europeans. It has been frustrating, obviously.

Senator HEINZ. Well, don't you think that if consultations on items that were never being seriously considered for inclusion by the Europeans had been requested not 6 weeks ago but maybe 16 weeks ago or 10 weeks ago or whenever USTR thought they had enough information that that might have encouraged the Europeans to be a little more forthcoming on what they were proposing to the Department of Commerce in the way of a settlement?

Mr. HORLICK. The Department has worked very closely with the USTR so I defer to them.

Mr. HATHAWAY. On the question of the timing, the final countervailing duty decisions were the key. Although the negotiations and overall arrangements were obviously of importance to what was going to happen to the 301 cases, our concern was presenting the case under the subsidies code that was consistent with the determinations that Commerce was making, their final determinations, on what was and what wasn't a subsidy. And those had to do with the subsidy program that applied both to carbon steel and to specialty steel. We didn't get the final countervailing duty determination on the program. It wasn't a question of the products not being covered. Those determinations weren't finished until August 25. Once they were made, we then had to revise our request for consultations. In fact, to make our request consistent with what was done with the final Commerce determinations, we made, then, the formal request for consultation on September 22 following the revisions on the basis of Commerce's determinations on the programs.

Now the only time we felt that we were capable of squeezing this whole process shorter was between August 25 and the time we made the formal request for consultations on September 22. And in terms of revising a major complaint on the basis of analyzing the Commerce Department findings relative to the subsidies code—it was not a small task.

That was the timing on the 301 cases, and it dealt with programs rather than CVD cases against a particular product.

Senator HEINZ. Now, Mr. Hathaway, as I understand what you are saying, you are saying you didn't have the information you needed on countervailing duty cases in the specialty area prior to a few weeks ago. But I'm not talking about the countervailing duty suits. I am talking about the 301 complaints.

Mr. HATHAWAY. Since the basis for the 301 complaints was that the European Community countries had illegal subsidies, we had a Commerce Department investigation of whether those same programs were, in fact, illegal subsidies. Their determination wasn't made under our law, which is Code consistent. In other words, if we had gone forward, we could have been arguing—

Senator HEINZ. But you don't need to prove a case in order to request consultations.

Mr. HATHAWAY. We have to present our case with the request for consultation.

Senator HEINZ. This I understand.

Mr. HATHAWAY. That's the problem of the dispute settlement and the initial timing of the 301 case. We don't have the option of saying we want consultations without—

Senator HEINZ. When Mr. Lena testifies, as he will shortly, I'm going to ask him for his side of the story as to whether in his judg-

ment a sufficient amount of information had been made available to you for those consultations. What is sufficient is in the eye of the beholder, I suppose.

But I must say depending on what he presents, if he presents a good case that indeed you had sufficient information at an earlier date, then it will be very difficult to reach a conclusion other than that you are open to an allegation of foot dragging. I hope that's not the case. That's the problem I have got. I hope you haven't been foot dragging. But there are a substantial number of questions as to whether or not USTR has moved with the speed and urgency that is required in this case.

Mr. HATHAWAY. I think we ought to also keep in mind that we know we are coming up on a date for consultation. And we certainly don't want to do anything to reduce the pressure on the European communities to keep them from addressing these problems.

All I am saying is that I know—indeed, I would be very surprised if the domestic industry did not try to push us as hard as they can get us to move now. And if it gives them increased leverage to keep pressing us forward now to say that we were slower than we should have been before, we expect that.

But we have the list. And Charlie Blum, who is the Deputy Assistant Trade Representative especially in charge of the steel area, could go through with you, if you like, a list of areas where our complaint was made sufficient. We can do that after you get Mr. Lena's points for the record. Subsequent questions may be the most efficient way of doing it.

Senator HEINZ. Thank you for those comments. I have to announce—it's one of those days—that for a week I have been trying to arrange a conference on the export trading company legislation, which Gary is intimately familiar with. I finally got hold of Chairman Rodino this morning. It may have been of great assistance that the President in his press conference last night emphasized the importance of the half million jobs or so that that may create. In any event, we have finally got a time for the export trading company conference with the Judiciary Committee, which is in 10 minutes on the House side.

Mr. HATHAWAY. May I say, Senator Heinz, that we will give firm assurance that we will be pushing ahead in these cases as fast as we possibly can, and as vigorously as we can. I would like to give you, for your analysis, a confidential version of the basis for our consultations. It is restricted internationally. I think you will see the enormous improvement in the amount of information that we have gained through our internal work in making this a better case.

Senator HEINZ. Thank you. I'm anxious to see that.

Before we adjourn this panel, there is one other question and comment I want to make. The comment is that the normal way an industry that is experiencing a surge in imports seeks relief is through 201, the escape clause. The industry did seek relief through 201 in 1975. It was granted in 1976. It was in for roughly 3 years. Jimmy Carter then turned down an extension of the relief.

Since then, under President Reagan, a large number of 201's that have been recommended by the U.S. International Trade Commission have also been turned down. If one is a petitioner, he gets the

idea that there is someone somewhere in the administration that infallibly tells the President: Mr. President, if you agree to this recommendation to give this industry a quota or a tariff, even though that is perfectly consistent with the GATT, this will cause all kinds of international repercussions. And if you think our European allies are mad over the pipeline, why this is going to be the straw that breaks the camel's back. And they will start a trade war. They will stop buying our weapon systems, or they will pull out of NATO or the sky will simply fall. And, Mr. President, you can't possibly give the shoe industry or the mushroom industry or the steel industry any relief. And, indeed, it has so often seemed to be.

Now my question to you is this: If the specialty steel industry—and I guess USTR is the principal counselor to the President on this—were to file a 201 complaint with the U.S. International Trade Commission, and if the U.S. International Trade Commission found in favor of the industry by finding that indeed there was injury, that an escape clause action was indeed warranted, and recommended appropriate relief—let's say hypothetically the kind of quota tariff that was agreed to or recommended in 1976—could you say categorically that you and Mr. Brock would use every conceivable amount of influence at your command to support that recommendation of the USITC?

Mr. HATHAWAY. I can't speak for Ambassador Brock on that question. I know that in previous instances he has said that he would always keep an open mind on the cases.

Senator HEINZ. That's what I was afraid of.

Mr. HATHAWAY. And I think it would be unreasonable—

Senator HEINZ. That and 25 cents gets you a cup of coffee in the White House mess.

Mr. HATHAWAY. Maybe even more than that.

Senator HEINZ. It may be 65 cents. But no relief.

Mr. HATHAWAY. I think it's unreasonable to expect that we would be able to commit in advance. We did explore with the domestic industry different avenues of relief, including the escape clause that they might want to consider. There was very elaborate balancing of judgments as to whether they should pursue one form of remedy or another. But it certainly wasn't something that was precluded, that they could not get escape clause relief if they satisfied the criteria.

Senator HEINZ. Well, the reason that I wrote S. 2771 the way I did was, first, to speed the injury determination. But, second—and this is the other key part of the bill—to insure that a determination, once it's been made by the International Trade Commission that it doesn't get gutted. That so often seems to be the case.

Now let me ask you another question. Since we haven't been able to obtain any satisfactory assurance that the USTR would, indeed, support the conclusion and the recommendations of the USITC, if a recommendation were made, is there any doubt in your mind within the meaning of the section 201 statute that the specialty steel industry is being injured by imports?

Mr. HATHAWAY. I am not able to speak to what really amounts to a judgment that the International Trade Commission would have to make.

Senator HEINZ. Well, let me remind you that the USTR is not exactly a stranger to the word "injury." Neither is the Commerce Department. And is there any doubt in your mind that this industry is being injured by imports?

Mr. HATHAWAY. I think there is evidence to support that, and we have some preliminary decisions by the International Trade Commission on these cases. Evidence that, in fact, they are being injured. There have been decisions that indicate that there has been reasonable likelihood of material injury. There hasn't been a dispute on that.

Senator HEINZ. You are saying the answer to that question is, yes, Senator, there clearly has been material injury by reason of imports?

Mr. HATHAWAY. There are cases where that has been the case, but I don't want to get into the position of trying to second guess or to insert a policy overview of what the ITC's judgment should be.

Senator HEINZ. But you know you have to determine what the status of these cases is for 301, not 201. Now the extent to which you really go forward with 301 cases is going to be colored by the extent to which you see, to the extent you believe, that the industry is being injured.

Mr. HATHAWAY. We have, in fact, in prosecuting our 301 cases made those allegations. But the original question was whether there was injury in the context of something that is really the jurisdiction of the Trade Commission, which we don't, even in reviewing a 201 case, prejudge.

Senator HEINZ. I'm not asking you to speak for the International Trade Commission. Indeed, even if you tried to, you couldn't.

Mr. HATHAWAY. That is correct.

Senator HEINZ. So just give me your best answer.

Mr. HATHAWAY. We have, in accepting the 301 cases, made the determination.

Senator HEINZ. Well, then why don't you say so? Why don't you repeat after me: This industry is being injured by foreign competition. Can you say that?

Mr. HATHAWAY. The standard that we use in 301 is that the practices are causing injury to the U.S. industry. And that's the basis under which we would complain.

Senator HEINZ. Let me amend the repetition. Within the meaning of the 301 statute, this industry is being injured by imports.

Mr. HATHAWAY. And within the meaning of the subsidies code, and that, in fact, is the basis of our complaint.

Senator HEINZ. Do you agree with that?

Mr. HATHAWAY. If we didn't agree, we wouldn't have prosecuted the case.

Senator HEINZ. Do me a favor.

Mr. HATHAWAY. Yes.

Senator HEINZ. Well, it took a long time to get "yes" for an answer. Maybe that's why it has taken so long to get the consultations.

Mr. HATHAWAY. I think the problem was the formulation of the question rather than the substance of the answer.

Senator HEINZ. Excuse me.

[Pause.]

Senator HEINZ. Gentlemen, I have no further questions for you. I must apologize to Adolph Lena, who is our next witness. Adolph, I'm going to have to put your testimony in the record. I know you will be available to answer any questions I submit to you in writing, but I have to go to the Export Trading Company conference, which has just been called.

Gentlemen, at the table, Gary Horlick, Mike Hathaway, if you want to come up here, you may. But while you are doing that, I just want to indicate, if I can find it, that these witnesses we have just heard from are from the administration. And Mr. Lena represents the industry. In addition to these witnesses, I want to note for the record that Congressman Gaydos and I, in our capacity as chairmen of our respective steel caucuses, have correspondence from the United Steel Workers regarding the legislation under consideration today. The substance of the correspondence is that when they submitted these comments to us, they were uncertain as to the best time to proceed with the legislation. They indicate that the formulation in my bill was an appropriate way to proceed although they might perhaps want broader product coverage. So I have put that in the record.

Adolph, we will put your entire statement in the record. Do you have a comment?

Mr. LENA. I would just like a couple of minutes, Senator.

Senator HEINZ. Well, I have got 60 seconds. I apologize to you.

STATEMENT OF ADOLPH J. LENA, CHAIRMAN OF THE BOARD, AL-TECH SPECIALTY STEEL CORP., DUNKIRK, N.Y.

Mr. LENA. Well, in light of the discussion that just occurred, and taking the 301 cases and whatever the reason might be for the delay, you will find some information in my testimony that I think is pertinent to that question.

To me, the significant part is not at this point in time why the delay, but what is going to happen in the future. There is supposed to be a decision and a recommendation by October 26. And this is now September 29. And although some information meetings may have been heard, there has not yet been a formal meeting before the GATT.

Now there is no incentive for the foreigners to want to ever agree to have a meeting. And so our concern in our industry, which is much worse even than you have described it, which is bad enough, is what is going to happen from here on in. And what's going to happen by October 26? And what's going to happen without dumping cases? Because frankly, I don't see much being done. And that's my only comment.

Senator HEINZ. I want to apologize to you for leaving you the very shortest end of the stick.

Mr. LENA. Fine.

Senator HEINZ. It wasn't my intention to do so.

TESTIMONY
OF
ADOLPH J. LENA

Mr. Chairman and Members of the Subcommittee:

My name is Adolph J. Lena. I am Chairman of the Advisory Committee of the Specialty Steel Industry of the United States, which is composed of 17 domestic producers of stainless and tool steel products. A list of our members is attached to my testimony as Exhibit A. I am also Chairman of the Board and Chief Executive Officer of the AL Tech Specialty Steel Corporation. I am grateful for the opportunity to testify before this Committee on behalf of both my industry and my company.

I am here today to describe the current severe difficulties faced by the domestic specialty steel industry as a direct result of foreign government subsidization and dumping by foreign producers. In many ways, the specialty steel industry is suffering from the most clear examples of the trade problems faced by this country. I think our experience will be instructive for this Committee.

At the outset, I want to emphasize that the U.S. specialty steel industry is a competitive, efficient and technologically advanced industry. We are not a sick industry crying for protection. Quite the contrary. In fact, in testimony before the Subcommittee on Trade of the Ways and Means Committee earlier this year, Under Secretary of Commerce Lionel Olmer described the domestic specialty steel industry as one which should be highly competitive in the world marketplace. A report by the Office of Technology Assessment (OTA) of the United States Congress in 1980 also described domestic specialty steelmakers as efficient and competitive. In a recent article, Dr. Joel S. Hirschhorn, Project Director of the OTA study, said, "[A]lloy/specialty steel companies have a history of high growth rates, high returns on investment, technological innovation, high labor productivity, adept marketing strategies, and an ability to succeed without much government help." Thus, it is not only our opinion but also that of a high federal government official, supported by a special study for the Congress by its own investigators, that the specialty steel industry is fully competitive and in fact, if the fair

trade laws were enforced, should be a significant exporting industry. While we do export some of our products, the exports are almost entirely limited to types not produced in the importing countries. I would like to insert in the record, Mr. Chairman, a short paper describing the competitiveness of the domestic steel industry and the reason for our current difficulties (Exhibit B).

Yet, I am here today to tell you that my company and the entire domestic specialty steel industry is severely threatened. Even though the domestic specialty steel industry is competitive, efficient and modern, we are rapidly losing sales and our markets to imports from foreign companies which do not have to meet our disciplines of profit or capital formation. This threat is not from companies which are more efficient producers than we. It is from companies owned and/or subsidized by their governments, which makes it possible for them to sell in our market at prices below their cost of production.

I would like to first describe the history of the import problems in specialty steels. For this purpose, I have attached three graphs showing the imports in three of our major product lines. These are tool steels (Exhibit C), stainless steel bars (Exhibit D), and stainless steel rod (Exhibit E).

Imports of these products began in the early 1960's and have continually increased since that time. As shown on each of the charts, the import penetration or market share jumped significantly during each recessionary period. When domestic demand increased after a recession, the market share of imports would drop somewhat, but the tonnage of imports would almost always remain at a higher level than prior to the recession. As a result, foreign producers captured a continually larger share of our markets with each recession.

This was accomplished by dumping products into our markets at less than fair value. The industry, during this time period, spent millions of dollars in its efforts to

obtain enforcement of the fair trade laws and cooperated in every conceivable way with the U.S. Government. However, we have very little to show for our efforts.

We were successful with two dumping cases about ten years ago and we were successful with a 201 injury case before the International Trade Commission. As a result of the finding of severe injury, the ITC in 1976 recommended that import limitations be imposed for a period of five years. Instead, President Ford imposed import limits for three years, but with the stipulation that during this time period, his Special Trade Representative was to establish orderly marketing arrangements in specialty steel. Unfortunately, the three-year period elapsed without the establishment of orderly marketing arrangements, and the industry's request for an extension of the import restraints was denied by President Carter, who merely phased out the program over eight months.

I should point out that, during the decade of the 1970's, there was a substantial reduction in the capacity of the industry as a result of certain producers withdrawing from the manufacture of certain specialty steel products. I have identified these in one of my attachments (Exhibit F). In all cases, the reductions were the result of unwillingness of the producers to invest substantial amounts of money either for modernization or for compliance with environmental regulations because of the uncertainty of future markets due to increases in imports.

In spite of all the efforts that we have made, our situation today is the worst that it has ever been and has reached crisis proportions. Although the attached charts show a rapid increase in both tonnage and market share for 1981, they actually do not reflect the full severity of the problem. I have shown on the chart of stainless steel bars (Exhibit D) the increasing imports in each of the quarters for 1981. In the fourth quarter, the market share of imported stainless bars reached an all-time high of 27 percent and in the second quarter of 1982, the market share increased further to 29.5 percent. Even

worse are tool steels (Exhibit C), where the market share of imports in July 1982 was 57.6 percent.

The market penetration of imports in 1982 has continued at unprecedented levels in spite of a further reduction in the total U.S. market because of the severity of the recession.

Our unemployment rate is very high and many of our workers have been laid off for a sufficiently long time that they no longer receive unemployment compensation. In addition, our supplemental unemployment benefits funds are depleted, so many of our workers have absolutely no source of income.

Many of our firms are in serious financial trouble. Specialty steel producers, my own included, expended considerable amounts of money for capital investment during the import limitation period with the full expectation that orderly marketing arrangements were going to be established and that we would not in the future be faced with the type of problem that had existed in the past. As a result, many of our firms borrowed substantial amounts of money and increased their debt.

The situation today is that we not only have the normal double whammy that we have experienced in every recession, but we have an additional burden. This double whammy is the combination of the decline in volume as a result of reduced domestic demand, plus the effects of imports on both volume and price. The additional burden is the high interest cost resulting from the debt that was incurred to finance the modernization of our facilities during the period of import restraints.

Within the past year, Bethlehem Steel, after 75 years of production, discontinued their tool steel business with the shutdown of facilities and loss of jobs associated with this product line. The Crucible Steel plant in Midland, Pennsylvania, will be permanently shut down on October 15, 1982. As recently as 1980, this plant employed more than 5,000 people. McLouth Steel, which was a producer of both stainless and

carbon steels, sold their stainless steel operation in an effort to avoid bankruptcy, but unfortunately was not successful in this effort. Guterl Steel, a manufacturer of stainless and tool steels, recently filed for bankruptcy under Chapter 11. The Bridgeville plant of Cyclops will be shut down for the next three months. Eastern Stainless has publically described the severity of their financial situation and has hired outside investment help to determine a course of action. My own parent company has reported in their financial statements that AL Tech has lost almost \$8 million in the first six months of this year. Allegheny Ludlum Industries, at one time the largest producer of specialty steels in the world, disposed of their Flat Rolled Division to a group of investors including employees. Previously, in 1976, they had disposed of their Bar Products Division to a group of employees who took such action to avoid liquidation of that division.

It should be apparent that the hardships being faced by our companies and our employees are far in excess of those due solely to the recession. Our losses are staggering and our unemployment rate is not the national average of 10 percent but is 50 percent or greater in some firms.

Thus, imports are not only flooding our markets at a time when domestic demand is down, but they are on their way to taking over this market and driving more of our producers out of business entirely.

We have evidence that foreign producers are charging prices well below prevailing domestic prices for most specialty steel products. Confidential sources reveal that foreign products are selling for as much as 54 percent below the U.S. price for certain specialty steel products. We know that foreign steelmakers could not do this unless they were assisted by massive government subsidies.

Moreover, foreign specialty steel producers have been expanding their capacity over the past 20 years to levels far in excess of their home market needs. Much

of this excess is being exported to the United States because it is still the largest and most open market in the world.

Those countries which have increased their exports to the United States are not profitable. British Steel Corporation, which is government owned, has lost three billion dollars in the last four years and yet was able to make the largest single stainless steel investment in the history of stainless steel production anywhere in the world. Their stated objective is to concentrate on exporting specialty steels. The two major specialty steel companies in France have been nationalized and the industry is being restructured after years of losses and government subsidies. Sweden, whose producers have lost money since 1976, provides significant subsidies to encourage companies not to reduce employment. Brazil, Austria, Mexico, Spain, Belgium — all of these countries have long histories of subsidizing their specialty steel industries. These subsidies permit companies to sell in our market at the expense of our employees' jobs, their families, and the communities in which we are located. Equally important is the injury caused to my company and others like it who must rely on our own profits to generate the capital for continuing investment to remain modern and efficient.

What are we doing to deal with the problem?

When quotas were terminated by President Carter in February 1980, we could foresee the injury that was going to occur. We requested that specialty steel products be included in the Trigger Price Mechanism that was in effect at that time for carbon steel products and for stainless steel wire. This request was rejected. Instead, the Commerce Department under the Carter Administration established what was called a "surge mechanism."

Under this system the ten-year weighted average of import penetration was used as a basis for determination of surges in each product line. This level of import penetration was essentially the same as that which the ITC determined was responsible

for injury in our earlier 201 case. If imports in any product line exceeded this level, the Commerce Department was required to make notification in the Federal Register, advise the nations responsible for the surges, and subsequently to determine whether such imports were in violation of our trade laws.

At the time the mechanism was installed, tool steels were already at surge levels, being in excess of the 22 percent limit at about 28 percent. The Commerce Department filed the proper notices in the Federal Register and notified the offending nations. However, with rare exceptions, these nations refused to cooperate with our Commerce Department and no investigations were ever made.

As a result, all products have surged far beyond the surge mechanism levels. For instance, the previously-mentioned tool steels are now at a 57.6 percent penetration level. Stainless steel bars, where the surge level was 17 percent, is now almost 25 percent. Therefore, the surge mechanism has been an absolute failure and it has been our recommendation to the Commerce Department that it be abolished.

Our industry association, the Specialty Steel Industry of the United States, jointly filed a petition with the United Steelworkers of America last December under Section 301 of the Trade Act of 1974, as amended. We named seven countries in our petition that we know are subsidizing their specialty steel industries. The countries are Belgium, France, Italy, the United Kingdom (all of which are members of the European Community) and Austria, Brazil and Sweden (which are not EC members).

Under the law, the United States Trade Representative had 45 days to respond to this petition. Shortly before the 45 days were up, we were requested in a meeting with the U.S. Trade Representative and his staff to allow them more time to evaluate the petition. The reason, we were told, is that under U.S. law, immediately upon receipt of the case, USTR is required to begin consultations under the GATT. We

therefore refiled on the basis of a supplemental petition in order to allow them the requested time.

Our petition was accepted on February 26, 1982, with the exclusion of Brazil for technical reasons related to the GATT, and Belgium for lack of sufficient information. Subsequently Belgium was reinstated on the basis of additional information supplied by us.

In spite of the requirements of section 301, the GATT consultations have not yet taken place. USTR is in violation of the statutory requirements — by seven months!

As Exhibit G, I am attaching a letter which the mayor of one of our local communities received recently from Ambassador Brock. In the second paragraph, he says that after "extensive investigation into the facts, we expect to decide shortly whether there are sufficient grounds for proceeding in the GATT with cases against the cited countries." In the next paragraph, he states that he "had postponed early decision in these cases pending the possible overall settlement of the steel issue which has been under negotiation for some time." In a later paragraph, he states, "If you look at the record I believe you will find that this Administration has demonstrated repeatedly its willingness to pursue allegations of unfair trade practices as soon as adequate evidence is presented which will enable us to initiate inquiries."

The handling of our 301 case by the Trade Representative's Office is absolutely contradictory to this last statement. Furthermore, in view of the allegations in our petition related to subsidies by European countries, I would like to read the following brief article (Exhibit H), published in the Wednesday, September 15, 1982 issue of THE NEW YORK TIMES:

EUROPE STEEL AID ASSAILED

BRUSSELS, September 14 (Reuters) — Dozens of independent Western European steel producers, saying they are being forced into bankruptcy, bitterly attacked state-funded companies today. In a letter to the European Economic

Community's industry commissioner, they criticized governments for giving huge subsidies to large steel companies that are intended to offset losses.

The letter, signed by more than 60 concerns in the European Independent Steelworkers Association, called for immediate action by the Common Market to remedy what it called the intolerable state of the European Steel market. "It is indefensible that public money is still being invested to produce goods that small private companies make more cheaply," it said.

The independent producers added that the aggressive pricing policies of state-run companies was the chief cause of the market's problems. By selling their products up to 30 percent below their own list prices and well under production costs, the large makers are pushing small and medium-sized producers to the brink of bankruptcy, they said.

It is interesting to note that independent private steelmakers in Europe are having the same difficulties that we are having in this country as a result of the subsidies of large steelmakers, which is the basis of our 301 complaint.

In addition to the 301 case, we have filed six separate countervailing duty or dumping cases that involve Germany, France, Spain and Brazil. In each of these six cases, the ITC by unanimous vote has determined that our industry is being materially injured. Only one of these cases so far has reached the point of preliminary determination by the Commerce Department, that being a case against stainless steel bar and rod from Spain. In spite of the evidence which we have presented in our petition, the Commerce Department has found subsidy margins of only 2.2 percent in the case of one firm and 6 percent in the case of another. A third firm, which is a major exporter to the U.S., has been in bankruptcy since 1978 and is being heavily subsidized; yet the Commerce Department up to this point has been unable to obtain sufficient information to assess any dumping margin.

The true fact of the matter is that the Commerce Department, without the cooperation of foreign governments or foreign producers, is unable to conduct an

investigation to determine the true extent of subsidization and proper margins that would be applicable.

The Commerce Department, as all of you know, has been negotiating with the EC for settlement of a large number of carbon steel cases that have been initiated by the large carbon steel companies. The Administration has publicly stated that the proposal by the EC is a good one for the steel industry and should be accepted.

The EC proposal included flat rolled stainless steel. As a result, the Commerce Department will point out that the EC proposal covers 75 percent of the specialty steel tonnage and 57 percent of the imports. Yet, the EC proposal totally excludes stainless steel bar, stainless steel rod and tool steels — where the import penetration is much higher than any other steel products. Furthermore, many of the firms in our industry produce only these products and are the firms suffering to the greatest degree under the present onslaught. The European Coal and Steel Community (ECSC) refuses to consider these products on the basis that their charter does not give them the authority over many of the small specialty steel firms. However, the major specialty steel exporters to this country are not the small firms, but the same ones that export flat rolled stainless steel, and many are also exporters of the carbon steel products covered in the proposed EC agreements.

I would also point out that when import restraints on specialty steels were in effect in the 1976-79 period, all European producers were included in the program.

It is ironic to me that the Armed Services Committee of the Senate, after extensive hearings, determined that the specialty steel industry is essential to our national defense. This is particularly true of that segment of our industry where the import penetration is the largest and where our companies are being absolutely destroyed.

Our industry has, at least for the last 15 years, been attempting to obtain fair treatment for our companies and our employees through enforcement of our fair trade laws. We have cooperated in every conceivable way with the U.S. Government. Our situation, unfortunately, has become progressively worse with each recession and we are now at the point of being destroyed. I must come to the conclusion that either our fair trade laws in their present form are unenforceable or that this Administration, as well as previous ones, does not have the will to enforce the law. For instance, the section 301 mechanism gives the government the opportunity to take unilateral action outside the GATT; yet USTR has been unwilling to pursue such action.

I should also point out that our industry is not the only one suffering from such unfair trade practices. Unless something is done soon, many of our manufacturing industries will be destroyed.

It is also apparent to me that the foreign producers fully recognize the deficiencies in our trade laws and that the U.S. Government is unable or unwilling to take action in any timely manner. Furthermore, history shows that even when violations are found, the penalties imposed are insignificant. Therefore, foreign producers run no risk in continually violating our laws.

What can be done about it?

In view of the urgency of our situation, we have suggested to both USTR and the Commerce Department that our 301 case could serve as a basis for the establishment of import limitations. We also strongly support the legislation that has been introduced by Senator Heinz for import limits on specialty steel, S.2770. We believe that such restraints should be installed quickly and should be in effect for whatever length of time is necessary for the U.S. Government to establish the means whereby American industries and American workers can expect to receive fair treatment in international trade. We also strongly support S.2771, Senator Heinz's bill to establish by Congressional

action that we have been injured under section 201 and requiring ITC and Presidential action.

We are not seeking protectionism for an obsolete industry, but there is no way that any American industry can compete against heavily-subsidized foreign companies. It is our contention and our firm belief that we are fully competitive and that we are absolutely the lowest-cost producer for the U.S. market. As such, we should not be forced to give up any share of our market — which is what we agree to do when we accept import limitations. However, we see no other short-term solution at this time that will save major segments of our industry.

I thank you very much for permitting me to testify at this very important hearing. Needless to say, we need your help and we need it right away.

EXHIBIT A**MEMBER FIRMS OF THE SPECIALTY STEEL
INDUSTRY OF THE UNITED STATES**

Allegheny Ludlum Steel Corporation

AL Tech Specialty Steel Corporation

ARMCO Stainless Steel Division, ARMCO, Inc.

Braeburn Alloy Steel Division, Continental Cooper & Steel Industries, Inc.

Carpenter Technology Corporation

Columbia Tool Steel Company

Crucible Materials Group, Colt Industries, Inc.

Eastern Stainless Steel Division, Eastmet Corporation

Electralloy Corporation

Guterl Special Steel Corporation

Jessop Steel Company

Jones & Laughlin Incorporated

Joslyn Stainless Steels

Latrobe Steel Company

Republic Steel Corporation

Universal-Cyclops Specialty Steel Division, Cyclops Corporation

Washington Steel Corporation

EXHIBIT B**SPECIALTY STEEL INDUSTRY OF THE UNITED STATES**

Suite 306 1055 Thomas Jefferson Street NW Washington D.C. 20007 (202/342-8450)

SPECIALTY STEEL:**A HIGH-TECHNOLOGY,
COMPETITIVE AMERICAN INDUSTRY
IN TROUBLE**

December 2, 1981Summary

The domestic specialty steel industry has been found to be a highly competitive American industry which is essential to the national defense. Yet, because of increasing competition from foreign producers who are subsidized and who use unfair trade practices in the American marketplace, the industry faces a critical challenge to its future. Imported specialty steel is taking a rapidly growing share of the domestic market, worker layoffs are increasing weekly, and the U.S. government's "surge mechanism" has proved ineffective to deal with foreign unfair trade practices. Therefore, the industry has undertaken an aggressive program to deal with the problem of foreign unfair trade practices. The first action to be taken is the filing of a "section 301" case with the Office of the United States Trade Representative. This case describes the vast system of government subsidies to foreign specialty steel producers. These subsidies violate international and U.S. laws, and the specialty steel industry has asked our government to take appropriate actions to eliminate unfair trade practices and require foreign producers to compete fairly in the U.S. marketplace.

Specialty Steel:

A High-Technology, Competitive American Industry in Trouble

I. Introduction

The United States' specialty steel industry is recognized as a highly competitive American industry essential to the national economy and defense. Yet, because of increasing competition from government-owned or subsidized foreign producers in the American marketplace, the industry faces a critical challenge. Imported specialty steel, using unfair trade practices, is taking a rapidly growing share of the domestic market. This is causing severe injury to American producers, increasing worker layoffs, and threatening the future of this industry.

The U.S. government's specialty steel "surge mechanism" has proved ineffective in dealing with foreign illegal and unfair trade practices. The Specialty Steel Industry of the United States and the United Steelworkers of America, AFL-CIO/CLC are therefore mounting an aggressive program under U.S. trade laws. The first step is the filing -- on December 2, 1981 -- of a "section 301 case" with the Office of the United States Trade Representative (USTR). This landmark action highlights the vast system of government subsidies to foreign specialty steel producers, which violate U.S. and international laws. The specialty steel industry and the union have asked our government to take appropriate actions to require foreign producers to compete fairly in the U.S. marketplace. Additional actions against certain countries and foreign specialty steel producers covering specific product lines will be taken. The industry contemplates that supplementary "antidumping" and "countervailing" duty suits will be filed as soon as current investigations have been completed.

II. The Specialty Steel Industry

America's highly industrialized economy has become critically dependent upon specialty steels.

"Specialty steels" generally are identified as stainless steels; tool and die steels; high-temperature alloys (super-alloys); electrical, magnetic, refractory, electronic, and

reactive metals. They are designed and produced for applications in extreme environments demanding special hardness; toughness; resistance to heat, corrosion, or abrasion; or combinations of these characteristics. Because of their high-alloy contents, technological properties, and/or the special processing techniques needed to meet close specifications, specialty steels are more difficult to make and call for greater labor input than other steels.

The national requirements for specialty steels may be classified into two groups: activities which are necessary to maintain the civilian economy and a strong industrial base; and those defense needs which bear directly upon military preparedness. Many uses of specialty steels in these two areas are interrelated, and often manufactured products containing specialty steels can be used for both civilian and military purposes. Specialty steels are vital to the needs of our civilian economy and our defense operations -- which, in turn, are dependent upon the ability of this nation to maintain a strong, viable industrial base.

There are many critical applications for specialty steels for which there is no economic, or readily available, substitute material. To keep the highly mechanized and broadly diversified economy of this country running smoothly, specialty steels are an indispensable, basic material.

III. A Highly Competitive American Industry

The United States' specialty steel industry is the world's most efficient producer of specialty steels. U.S. specialty steel companies have invested heavily in new facilities and advanced technology -- resulting in greatly increased productivity. America's specialty steel producers are the world's leaders in technology, advanced equipment, and alloy developments.

The Office of Technology Assessment of the United States Congress completed an extensive study of the steel industry in 1980. The OTA concluded that, with major investments having been made in advanced technologies such as continuous casting and the "AOD" refining process, the domestic specialty steel industry is highly competitive.

IV. An Industry Essential to National Defense

The Senate Armed Services Committee has determined that the specialty steel industry is essential to the national defense. Following hearings which included witnesses from the Department of Defense, the Committee determined that the

products produced by the specialty steel industry are absolutely necessary to support our military capabilities.

Some examples of industries producing essential goods and services for the national defense which are dependent upon specialty steels are the following: the electrical power system, the aircraft industry, semiconductors, food processing, transportation systems, marine equipment, petroleum processing, and chemical processing. Tool and high-speed steels are "the tools which make everything else" in our industrialized economy.

V. The Import Problem

Subsidized and dumped imports of foreign specialty steel present a critical challenge to the future of the domestic industry.

Specialty steel imports are not covered by the Trigger Price Mechanism (TPM), with the exception of stainless wire. However, in 1980, the Carter Administration announced a "surge mechanism" for specialty steels because of concern about such imports. Administered by the Department of Commerce, this program is designed to alert the government of "surges" in specialty steel imports. These surges may indicate unfair trade practices resulting from foreign dumping or government subsidies. If the Commerce Department finds evidence of dumping or subsidization, appropriate legal actions can be taken against foreign producers.

Despite the good-faith efforts of the Department of Commerce, the surge mechanism has not proved effective to deal with the import problem. Imported specialty steel is taking a growing share of the domestic market. For example, current data (3rd quarter 1981) indicates that imports -- as a percentage of domestic consumption -- are at the following extremely high levels for the key specialty steel product areas shown below:

<u>PRODUCT</u>	<u>IMPORT PENETRATION</u>
Alloy tool and high-speed steels	39.5%
Stainless steel:	
Rod	47.0%
Bar	26.6%
Plate	7.5%
Sheet and strip	11.2%
Pipe and tubing	58.9%

Unemployment is increasing weekly. The present rate of unemployment in the domestic specialty steel industry is over 21 percent. In addition, Bethlehem Steel, a substantial producer of tool steels, has announced their complete withdrawal from that market and has described imports as a major factor in their decision.

The Specialty Steel Industry of the United States and the United Steelworkers of America will not sit by while our industry is devastated by illegal and unfairly traded imports of specialty steel. Therefore, the industry and the union have undertaken an aggressive program to deal with this problem. The first action is a "section 301" case, filed December 2 with the Office of the United States Trade Representative (USTR). Additional actions are under consideration.

The "section 301" case describes the vast subsidies being provided to foreign specialty steel producers by their governments. These subsidies are illegal under international agreements, such as the Subsidies Code of the General Agreement on Tariffs and Trade, and under the American countervailing duty laws. It is obvious that, no matter how efficient, American companies -- which must be profitable to survive -- cannot long compete against subsidized foreign producers. Prices of foreign specialty steel products sold in the marketplace often do not even cover the costs of producing them. Foreign producers can afford to sell at such prices only because their losses are made up by government grants, loans, tax rebates, and other similar subsidies.

The industry and the union are hopeful that our government will take appropriate actions to require foreign producers to compete in the domestic market under fair, competitive conditions.

VI. Specialty Steel Producers of the United States

Employing approximately 26,000 production workers, the producing facilities of the specialty steel industry are small in relation to large carbon steel, fully integrated plants. Annual sales by all specialty steel companies are a fraction of those by the large, carbon steel producers. Some specialty steel producers are one- or two-products companies. The equipment required is highly specialized and must be versatile enough to take care of small production lots of a wide range of grades, custom melted for the specific requirements of each customer.

Though relatively small, the specialty steel companies are well known. They include the following:

Allegheny Ludlum Steel Corporation
AL Tech Specialty Steel Corporation

Braeburn Alloy Steel Division/Continental Copper
& Steel Industries
Carpenter Technology Corporation
Columbia Tool Steel Company
Crucible Materials Group, Colt Industries
Eastern Stainless Steel Company
Guterl Special Steel Corporation
Jessop Steel Company
Joslyn Stainless Steels
Latrobe Steel Company
Universal-Cyclops Specialty Steel Division/
Cyclops Corporation
Washington Steel Corporation

Large, carbon steel companies which have specialty steel operations include those shown below:

ARMCO, Inc.
Jones & Laughlin Steel Corporation
Republic Steel Corporation

EXHIBIT C

TOOL STEEL IMPORTS

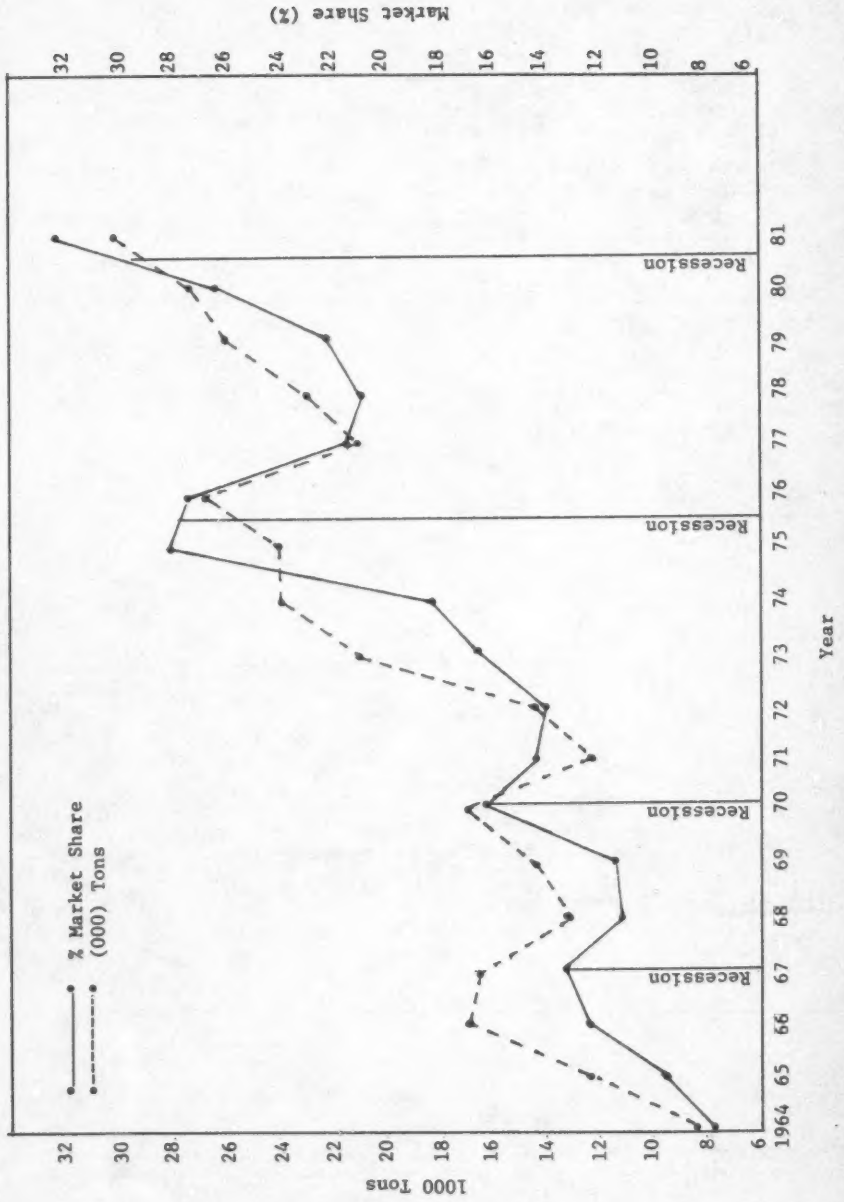


EXHIBIT D

STAINLESS STEEL BAR IMPORTS

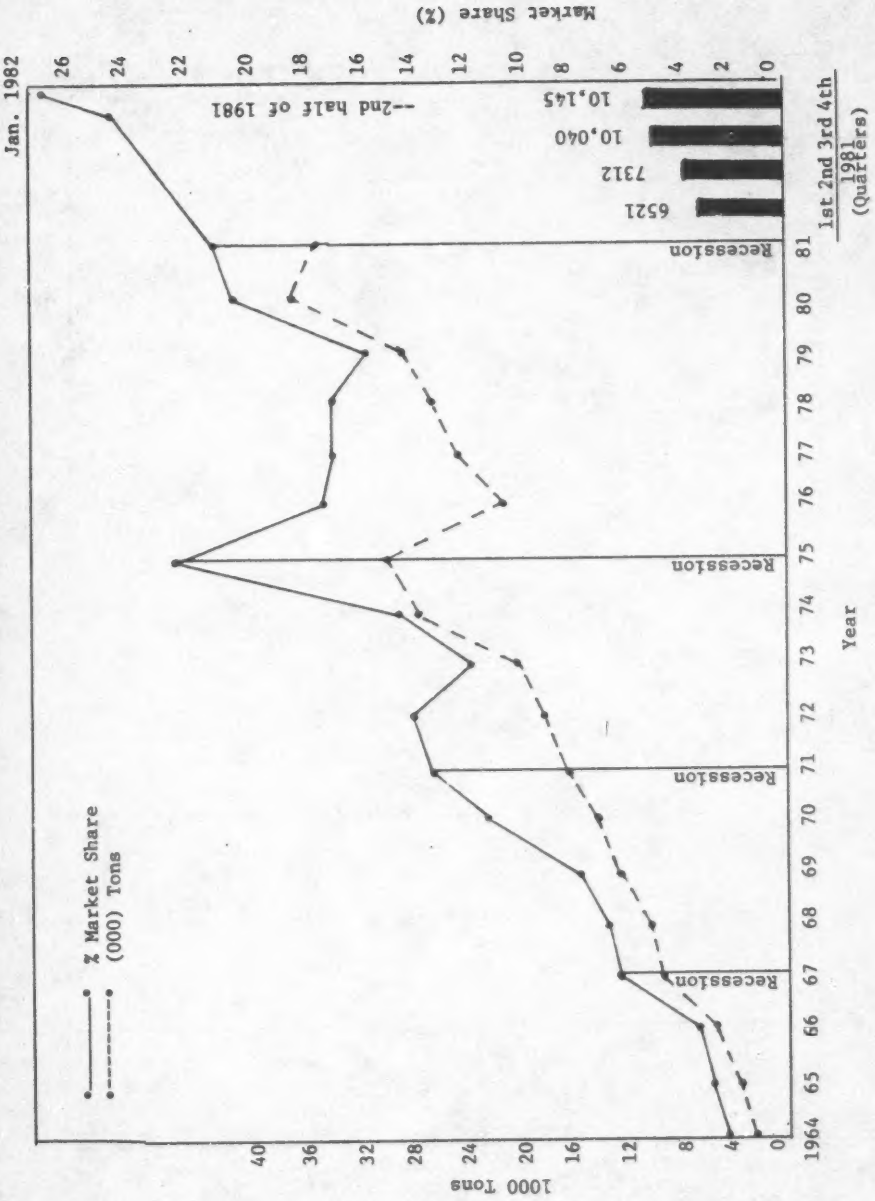


EXHIBIT E

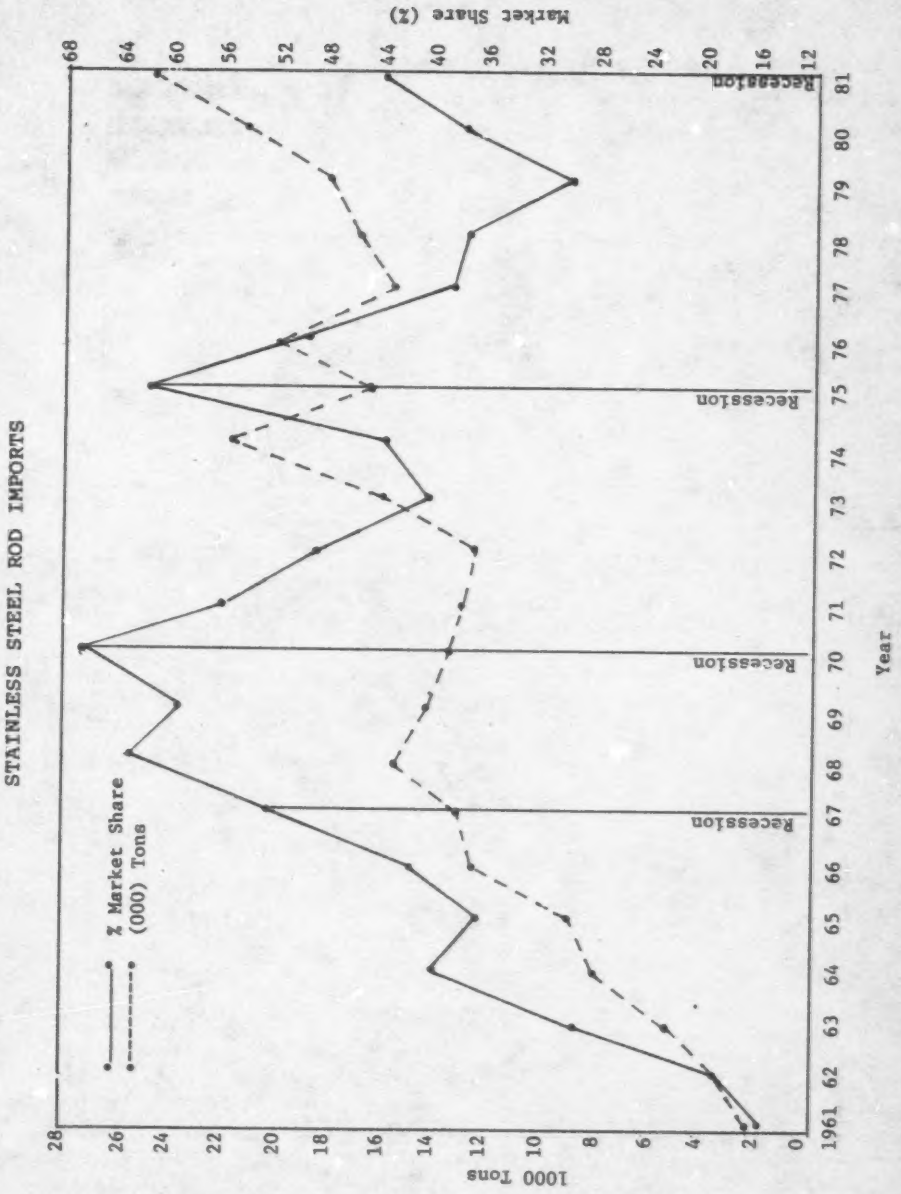


EXHIBIT FReduction in Capacity

- | | | |
|----|-------------------|---|
| 1) | U.S. Steel | Terminated the production of stainless steel sheet, stainless steel wire, and stainless steel seamless pipe and tube. |
| 2) | Jones & Laughlin | Terminated the production of stainless steel bar, wire and rod. |
| 3) | Armco | Terminated the production of stainless steel flat and hexagonal bar. |
| 4) | Universal Cyclops | Terminated the production of stainless steel and tool steel wire, rod and small diameter bar. |
| 5) | Joslyn | Terminated the production of stainless steel wire and small diameter bar. |
| 6) | Crucible/Syracuse | Terminated the production of stainless steel turbine bars and small diameter stainless steel rod. |
| 7) | Bethlehem | Terminated the production of all tool steels. |

THE UNITED STATES TRADE REPRESENTATIVE

WASHINGTON

20506

August 20, 1982

EXHIBIT C

The Honorable Louis C. Mancuso
Mayor
Village of Fredonia
Fredonia, New York 14063

Dear Mayor Mancuso:

Your recent letter to President Reagan regarding the specialty steel industry has been referred to me for reply. I share your deep concern regarding the health of this industry and the role imports have played in contributing to its current problems.

Earlier this year the specialty steel industry filed petitions with this Office alleging that the subsidy practices of a number of countries were injuring the U.S. industry. After some preliminary investigation, my Office decided to accept complaints against France, the United Kingdom, Italy, Sweden, and Austria, and last week we accepted another case against Belgium. After extensive investigation into the facts, we expect to decide shortly whether there are sufficient grounds for proceeding in the GATT with cases against the cited countries.

We had postponed early decision in these cases pending the possible overall settlement of the steel issue which has been under negotiation for some time. As you are undoubtedly aware, specialty steel products accounting for 66 percent of the specialty-steel products under current U.S. Government review would have been affected by the arrangement worked out between the Department of Commerce and the European Commission. My Office had been pressing the Department of Commerce for coverage of all specialty steel products in any final settlement, but this proved impossible to negotiate. Now that it appears no broad settlement is likely, owing to the rejection of the arrangement by the specialty steel industry and certain carbon steel producers, we plan to proceed with our own cases expeditiously.

Turning to the broader trade questions raised by the resolution included with your letter, I would only point out that one out of every seven American jobs is related, directly or indirectly, to U.S. exports. Thus, it is not reasonable to consider the impact of imports on our economy without fully considering the impact of exports, also. The dependence of the United States on its export sales demands that the United States must exercise care in its application of U.S. trade laws, otherwise we cannot expect foreign governments to play fair and follow international rules when they face problems with U.S. exports.

If you look at the record I believe you will find that this Administration has demonstrated repeatedly its willingness to pursue allegations of unfair trade practices as soon as adequate evidence is presented which will enable us to initiate inquiries. The laws which enable the United States to restrict imports are quite strict and the Executive is limited in its ability to respond to complaints until the facts are determined.

Certainly in the steel cases we have proceeded as rapidly as possible. The decision of the industry to reject U.S. Government efforts to achieve a reasonable settlement now dictates that these cases be pursued to their legally-prescribed conclusion.

Very truly yours,


WILLIAM E. BROCK

WEB:svf

EXHIBIT H

THE NEW YORK TIMES, WEDNESDAY, SEPTEMBER 15, 1962

Europe Steel Aid Assailed

BRUSSELS, Sept. 14 (Reuters) — Dozens of independent Western European steel producers, saying they are being forced into bankruptcy, bitterly attacked State-aided companies today. In a letter to the European Economic Community's industry commissioner, they criticized governments for giving huge subsidies to large steel companies that are intended to offset losses.

The letter, signed by more than 60 concerns in the European Independent Steelworks Association, called for immediate action by the Common Market to remedy what it called the "unbearable state of the European steel market." "It is indefensible that public money is still being funneled to produce goods that small private companies make more cheaply," it said.

The independent producers added that the aggressive pricing policies of State-aided companies was the chief cause of the market's problems. By selling their products up to 30 percent below their own list prices and well under production costs, the large makers are pushing small and medium-sized producers to the brink of bankruptcy, they said.

Mr. LENA. I know.

Senator HEINZ. But we must conclude the Export Trading Company conference. We would like to get that bill to the President this week. If there is a specialty steel industry, it may actually help it when we get this legislation passed.

Mr. LENA. I'm not holding my breath, Senator.

Senator HEINZ. Obviously, we wanted to build a case here as to the question of whether the administration has been moving aggressively ahead. I will reserve final judgment until I read the detailed testimony both from yourself and from the administration. The evidence so far on the record is that regrettably we simply have not moved fast enough. And that we have, as a result, caused a lot of hardship, injury, uncertainty and worse, the loss of thousands of jobs in the specialty steel industry.

Thank you.

[Whereupon, at 3:46 p.m., the hearing was concluded.]

[By direction of the chairman the following communication was made a part of the hearing record:]

U.S. Council for an Open World Economy

INCORPORATED

7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the Senate Committee on Finance in opposition to bills establishing import restrictions on specialty steel October 13, 1982

(The U.S. Council for an Open World Economy is a private, non-profit, public-interest organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

S. 2770 would establish statutory quotas on U.S. imports of specialty steel products for five years. S. 2771 provides a determination by Congress that imports of specialty steel are in such quantities as to be a substantial cause of serious injury to the domestic specialty steel industry. The bill instructs the International Trade Commission to report this finding to the President with the Commission's recommendation for the kind and scope of import restriction needed for remedial relief. The bill directs the President to implement promptly and without change the Commission's recommendation.

In his opening statement in this hearing, the principal proponent of these bills stated that the purpose of the hearing (and presumably of these bills) is "to confront the crisis in the American steel industry head on and to develop a program of immediate action to address its problems." Even in terms of the specialty steel industry (the explicit focus of this hearing and these bills), the approach is far from constituting what the announced purpose advertises. Its failure in this respect reflects the failure of the steel industry (both management and labor), and of government (both the executive and legislative branches), to seek a coherent, comprehensive, redevelopment strategy that addresses the real problems and needs of the steel industry (or the specialty steel industry per se). It is possible that government action may be necessary to ensure that competitive imports of these products are traded fairly in compliance with the letter and spirit of U.S. law and of the international code of fair international competition. It is also possible that in some cases import restraint may be necessary and proper to buy time for soundly based adjustment efforts by sectors of the industry that have been seriously injured (or are threatened with serious injury) by heavy import competition. However, to the extent that import restrictions may be necessary and proper, they should be only part of a coherent strategy identifiable as a steel (or specialty steel) redevelopment strategy.

encompassing all pertinent facets of public policy and calling for reassessment of all statutes and regulations materially affecting the industry's ability to adjust to rapidly rising foreign competition (with a view to correcting any inequities that may be found). No such strategy exists or has ever existed. Most of what the executive or legislative branches of government have ever done on the problems of the steel industry has projected import restrictions of one kind or another. What steel-oriented members of Congress in recent years have sought in attempting to help this industry (aside from attention to relief in meeting environmental standards) has been limited to import-restrictive devices.

These legislators seek a well-developed, steel-import-control policy (including measures to which they attach the euphemistic label "fair trade", as in S. 2770), not a coherent, well-developed steel redevelopment policy. This "uniquely critical industry" (as Senator Heinz's opening statement properly calls it) requires nothing less than the coherent redevelopment strategy to which I refer and which I have advocated for many years -- virtually alone, it seems.

The statutory import quotas proposed in S. 2770, and the substantial departures in S. 2771 from proper procedures of trade-policy due process of law, are so extreme (indeed archaic, considering their reversion to tactics long discredited) that the only real purpose of these bills seems to be scare tactics to stir quicker executive action in the anti-subsidy, anti-dumping and Section 301 proceedings in which the executive branch is seen by supporters of these bills to have been excessively slow.

The executive branch should move with deliberate speed in its handling of all cases that merit government attention. But members of Congress impatient with the decision-making process should seek prodding devices that are more responsible than what is attempted in these bills.

STATEMENT OF JOHN E. HALLORAN

President
Machine Knife Association
and
Michigan Knife Company

Mr. Chairman and Members of the Senate Finance Subcommittee on International Trade, I am grateful for this opportunity to alert you to the potential adverse impact on the American chipper knife industry of S. 2770 and S. 2771, the Specialty Steel Fair Trade Act of 1982.

The Machine Knife Association, of which I am President, was created in 1882 and currently represents ten companies from around the country which are engaged in the manufacture and sale of machine knives for the wood industry. Several Machine Knife Association members, including my company, Michigan Knife Company, manufacture chipper knives from chipper knife steel. Chipper knives are used in heavy machinery to chip wood into pulp, chips and other wood fiber products. Members of the Machine Knife Association have manufacturing and distribution facilities in many states, including Indiana, Kentucky, Louisiana, Massachusetts, Michigan, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, and Washington. A list of Association members and the location of their facilities is appended to this statement as Attachment 1.

The Machine Knife Association and Michigan Knife Company oppose S. 2770 and S. 2771, insofar as such legislation would attempt to (1) establish a quota system for imports of chipper knife steel (item 606.9300 of the Tariff Schedules of the United States), or (2) direct a finding, by the U.S. Trade Commission, of material injury to the domestic specialty steel industry by reason of imports of chipper knife steel. The Machine Knife

Association respectfully submits that chipper knife steel represents a de minimis and insignificant part of the speciality steel market, that American chipper knife manufacturers have experienced great difficulty in obtaining more than a small portion of their chipper knife steel requirements from domestic sources, that the problems of the domestic producers of chipper knife steel are caused as much by uneven quality and inconsistent supply as by noncompetitive prices, and that the International Trade Commission, the Executive Branch and the Congress have previously recognized that limited domestic production of chipper knife steel requires special policy consideration to ensure the adequate supply of raw materials to American manufacturers of finished chipper knives.

Indeed, in 1978 the President, upon recommendations of the International Trade Commission and the Executive Branch, specifically rejected the imposition of quotas on imports of chipper knife steel, such as might be imposed as a result of S. 2770.

Accordingly, the Machine Knife Association and Michigan Knife Company respectfully urge the members of this Subcommittee to reject those provisions of S. 2770 and S. 2771 which would unfairly and unnecessarily limit the availability of chipper knife steel to American producers of chipper knives. Without fair access to needed raw materials, the few remaining American chipper knife manufacturers will go the way of their departed brethren and either go out of business, relocate production outside this country or simply become distributors of foreign-made chipper knives.

I. Quotas on Imports of Chipper Knife Steel are Unnecessary and Unfair since the Domestic Specialty Steel Industry Does Not Provide an Adequate or Reliable Source of Chipper Knife Steel

The production of chipper knives requires a special analysis of alloy steel which is not now and has not recently been manufactured in the United States in sufficient quantities to meet the demand requirements of American chipper knife manufacturers. Chipper knife steel is distinguished in this regard from other specialty steels which are supplied by the domestic specialty steel industry and purchased by members of the Machine Knife Association in substantial quantities.

Only two domestic steel companies have produced chipper knife steel during the past several years: Guterl Specialty Steel Company, of Lockport, New York, and Jessup Steel Corporation, of Washington, Pennsylvania. Bethlehem Steel Company, of Bethlehem, Pennsylvania, once produced small quantities of a different alloy tool steel that Bethlehem claimed to be an acceptable substitute for chipper knife steel. However, within the last year Bethlehem closed its tool steel operations, effectively ending its participation in the chipper knife steel market. Neither Guterl nor Jessup has supplied more than a very small portion of the demand for chipper knife steel during the past several years.

Few domestic specialty steel companies have bothered to produce chipper knife steel in recent years, in large part because chipper knife steel represents such a small part of the specialty steel market and because chipper knife steel is used for no other purpose than for the manufacture of chipper knives. As Richard

P. Simmons, President of Allegheny Ludlum Steel Corporation and a spokesman for the domestic specialty industry stated at an ITC hearing in 1977 regarding speciality steel quotas, chipper knife steel is a "combination of both an unusual analysis and an unusual product form . . . [that] is not only undesirable for American manufacturers to produce, but undesirable for foreign manufacturers to produce." 1/

Demand for chipper knife steel is insignificant compared to other specialty steels. Chipper knife steel imports, upon which American chipper knife manufacturers depend to meet their raw material requirements, have accounted for less than two-tenths of one percent of total domestic specialty steel consumption, and only one percent of all specialty steel imported into the United States. According to the ITC, total imports of chipper knife steel in 1980 amounted to only 1,502 tons. Commerce Department figures show that over the past several years domestic specialty steel production has averaged more than 1 million tons per year and total imports of specialty steel have averaged over 150,000 tons per year. 2/

1/ Statement of Richard P. Simmons before the International Trade Commission on September 9, 1977. See Attachment 2.

2/ U.S. Department of Commerce News: Fifteenth Quarterly Report to Aid Review of U.S. Specialty Steel Industry (ITA 80-38). March 1980. See Attachment 3.

II. The Problems that Domestic Specialty Steel Producers Have Had in Selling Chipper Knife Steel are Caused as Much by the Uneven Quality of the Domestic Product as by its Non-Competitive Prices

Domestic chipper knife steel is not only more expensive and its supply less reliable than imported chipper knife steel, but it has also caused American knife manufacturers far greater quality problems than imported steel. Attachment 4, appended to this statement, includes a sample of letters from American chipper knife manufacturers which reflect substantial concern about such quality problems.

The greater quality problems posed by domestic chipper knife steel translate into higher costs of manufacturing for American chipper knife manufacturers. For example, domestic chipper knife steel typically is not manufactured to the same tolerances as imported chipper knife steel. As a result of domestic "oversize" problems, American knife manufacturers must expend extra labor -- at extra cost -- to make a knife with domestic chipper knife steel. Consequently, the effective prices of domestic chipper knife steel, after taking into account quality problems such as unusable product or failure to meet tolerances, is even higher than its quoted price, and just that much higher than the prices of imported chipper knife steel.

III. The ITC, the Executive Branch and the Congress have Previously Recognized the Problems Posed to American Chipper Knife Manufacturers by the Inadequate and Inconsistent Supply of Domestic Chipper Knife Steel

The problems created for American chipper knife manufacturers by the inadequate and inconsistent supply of domestic chipper knife

steel have received considerable attention by the ITC, the Executive Branch and the Congress in recent years. In April, 1978, upon the recommendation of the ITC, chipper knife manufacturers and the U.S. specialty steel industry, the President terminated quantitative restrictions with respect to imports of chipper knife steel. 3/ The President accepted the Commission's position that application of specialty steel quotas to chipper knife steel resulted in hardship to American chipper knife manufacturers and that domestic producers of specialty steel were unable, or found it "unattractive," to meet knife manufacturers' requirements. Importantly, Chairman Minchew noted in the Commission's report to the President that "termination of the restraints on [chipper knife steel] would [not] have a serious adverse economic effect on the U.S. industry concerned." 4/ Accordingly, the President determined that exclusion of chipper knife steel from the specialty steel quotas was "in the national interest." 5/

Similarly, Congress has considered the problem of inadequate domestic supply of chipper knife steel to meet the demand requirements of American chipper knife manufacturers, in conjunction with the problem of increasing imports of finished chipper knives.

3/ Pres. Procl. No. 4559, 43 Fed. Reg. 14433 (April 6, 1978). Copies of the statement of Michigan Knife Company, a chipper knife manufacturer, testimony of Richard P. Simmons of Allegheny Ludlum Steel Corporation, representing the domestic specialty steel industry, as well as copies of excerpts of the Commission's October 1977 Report on Stainless Steel and Alloy Tool Steel and the Presidential Proclamation are appended to this statement as Attachment 5.

4/ Report on Stainless Steel and Alloy Tool Steel, U.S. International Trade Commission, p. 9 (October 1977).

5/ Pres. Procl. No. 4559, supra.

Congress responded in 1980 by temporarily reducing the rate of duty on imported chipper knife steel from approximately 12.5% to 4.6% until September 30, 1982. 6/

In 1981 legislation was passed, without opposition, by the House of Representatives, and with the support of the Department of Commerce, 7/ which would permanently equalize the rates of duty on chipper knife steel and finished chipper knives. 8/ This legislation would cure a tariff anomaly that favors the importation of foreign-made chipper knives and would ensure that American knife manufacturers have access to the raw material they need to compete with their foreign counterparts. This Subcommittee received live testimony as well as prepared statements on this subject earlier this year.

IV. Conclusion.

For the foregoing reasons, the Machine Knife Association and Michigan Knife Company urge the Members of this Subcommittee and the other Members of the Senate to oppose those provisions of S. 2770 and S. 2771 that would unfairly and unjustly limit the availability of foreign chipper knife steel to American chipper knife manufacturers.

John E. Halloran
President
Machine Knife Association
and
Michigan Knife Company

6/ Pub. L. No. 96-609.

7/ Letter of Sherman E. Ungar, General Counsel of the U.S. Department of Commerce, to Hon. Dan Rostenkowski, Chairman of the House Ways and Means Committee, June 19, 1981. See Attachment 6.

3/ H.R. 4566, Sec. 4 (97th Congress).

ATTACHMENT 1CHIPPER KNIFE MANUFACTURERS AND
MEMBERS OF THE MACHINE KNIFE ASSOCIATION

Bolton-Emerson, Inc.
Lawrence, Massachusetts
Philadelphia, Pennsylvania
Seattle, Washington

Michigan Knife Company
Big Rapids, Michigan
Springfield, Oregon

Detroit Edge Tool Company
Detroit, Michigan

The Ohio Knife Company
Cincinnati, Ohio
Portland, Oregon

Disston, Inc.
Greensboro, North Carolina
Seattle, Washington

R. Hoe & Co., Inc.
Birmingham, Alabama
Scarsdale, New York
Portland, Oregon

Hannaco Knives & Saws, Inc.
Monroe, Louisiana
Greenville, Mississippi
Eugene, Oregon
Florence, South Carolina

Simmonds Cutting Tools
Chicago, Illinois
Shreveport, Louisiana
Fitchburg, Massachusetts

Lancaster Knives, Inc.
Lancaster, New York
Portland, Oregon

The Wapakoneta Machine Company
Wapakoneta, Ohio

MACHINE KNIFE ASSN.
Thomas D. Dolan
Executive Secretary
Machine Knife Association
800 Custer Avenue
Evanston, Illinois 60202
312-864-8444

ATTACHMENT 2

STATEMENT

O F

MR. RICHARD P. SIMMONS

PRESIDENT, ALLEGHANY LUDLUM STEEL CORPORATION

IN RESPONSE TO THE TESTIMONY

O F

MR. JOHN E. HALLORAN

PRESIDENT, MICHIGAN KNIFE CO.

BEFORE

THE UNITED STATES INTERNATIONAL TRADE COMMISSION

September 9, 1977

1 with a little bit of information and, of course, it would be
2 amenable -- it is not argumentative. It is strictly informa-
3 tional.

4 CHAIRMAN MINCHEW: I think it might be helpful if Mr.
5 Simmons could outline for the Commission and then maybe if Mr.
6 Halloran or Mr. Engman or the Commission or other parties could
7 ask Mr. Simmons questions.

8 MR. SIMMONS: First, let me clearly point out I am
9 not an adversary. I am here in support of your particular case.
10 I am sympathetic to it.

11 MR. ENGMAN: Do I understand that as removing this
12 particular type of steel from import restrictions?

13 MR. SIMMONS: Well, I did not go quite that far.

14 I thought it might be appropriate because this is
15 such an unusual situation that it might be of some benefit for
16 us to try and give the Commission some additional technical
17 insight into why this product might be difficult to obtain from
18 American domestic producers.

19 First, it is an unusual analysis, as Mr. Engman and
20 Mr. Halloran have pointed out. By the way, Allegheny Ludlum
21 does not provide this product. So I am not in any violation,
22 I feel, in discussing it.

23 Secondly, it is a product form in the form of what we
24 call flats. These are rectangular bars and so we have a
25 combination of both an unusual analysis and an unusual product

1 form. Such unusual analysis first is generally melted only at
2 . infrequent intervals and second only rolled at infrequent
3 intervals because of the necessity of setting a rolling mill
4 not to roll around but to roll in an unusual cross section and
5 without looking through all the sizes there was more than one.
6 There was a series of cross sections.

7 . . . The final point that I thought might be of some inte:
8 est is that when you look at Exhibit II, which is the foreign
9 chipper knife manufacturers, the first thing that strikes us
10 is the fact that many of Mr. Halloran's competitors are also
11 his suppliers of steel, his foreign suppliers of steel. I
12 think the fact, at least to some degree, might well reflect some
13 of the problems Mr. Halloran faces and with which we in the
14 special steel industry sympathize with greatly.

15 It has never been the intention of the specialty
16 steel industry to put anybody out of business. It is not our
17 intention today. I would hope administratively within the con-
18 text of the existing quotas and with the assistance, I am sure
19 of your very able staff, that there might be some way of
20 accommodating the particular problem that Mr. Halloran faces.

21 I am not suggesting that I know what that solution
22 is at this moment, but I do sympathize with his problem.

23 I would point out, however, that in his Exhibit VII
24 even Roechling points out in the last paragraph that the price
25 is most competitive. Now, I speak not as a producer of this

1 product. I now speak as a metallurgist, that the analysis of
2 this grade would suggest that under normal circumstances this
3 product would be much higher priced, both for foreign or domes
4 than the price that I was surprised to see, which I do not
5 question but which appears to me to be a reflection of a pro-
6 duct that is not only undesirable for American manufacturers
7 to produce but undesirable for foreign manufacturers to produce
8 as evidenced by the fact that they indicated that they wished
9 to upgrade to more desirable items within the quota.

10 I simply wanted to place on the record the fact that
11 outside of all the legal language that we go through, we cer-
12 tainly have no desire in any way to injure a small American
13 manufacturer.

14 Thank you. If there are any questions I certainly
15 would attempt to answer them.

16 CHAIRMAN MINCHEW: Are there any questions from the
17 Commission? Mr. Engman? Mr. Halloran? Other parties of
18 record?

19 MR. ENGMAN: Mr. Simmons, are you aware of what has
20 happened to the price -- to the foreign price for what I call
21 chipper knife steel, which you define much more exotically,
22 since the imposition of the quota?

23 MR. SIMMONS: No, I am not, sir.

24 MR. ENGMAN: Thank you.

25 CHAIRMAN MINCHEW: Are there further questions of

ATTACHMENT 3

Imports of Chipper Knife Steel
In Relation to Total Imports and
Consumption of Specialty Steel
(1980)

* * *

Chipper Knife Steel Imports (TSUS 606.93)	1,502 net tons
Total Specialty Steel Imports	152,127 net tons
Total U.S. Apparent Consumption of Specialty Steel	1,140,601 net tons

* * *

Chipper Knife Steel Imports as a Fraction of Total Specialty Steel Imports	.0099
Chipper Knife Steel Imports as a Fraction of U.S. Apparent Consumption of Specialty Steel	.0013

* * *

In sum, chipper knife steel accounts for less than one percent of total specialty steel imports and less than two-tenths of one percent of the specialty steel consumed in the United States.

Source: U.S. Department of Commerce, Import Administration

ATTACHMENT 4



Michigan Knife Co.

120 Pere Marquette St.,
Big Rapids, Michigan 49307
Phone (616) 796-4858

West Coast Sales & Distribution Center
886 Shelley St., Springfield, Oregon 97477
Phone (503) 726-1774

"The Knife People"

June 1, 1980

Mr. Lloyd Susini
Jessop Steel
300 Green Street
Washington, Pennsylvania 15301

Dear Lloyd:

This letter will confirm my conversation with you of this morning regarding the rejected load of Jessop's grade 86 saw cut plate - or as we term it, chipper knife steel.

This material being a trial order, enabling you to test your coating and for us to evaluate your material, was very disappointing to us receiving it in this deplorable condition. As discussed, the bars were bent, bowed, and twisted far beyond any useful condition. To make matters worse, I was relying on this particular size material for a specific customer order. It is unknown at this time, what problems this delay will create.

One area that concerns me, is that there was some specific attention paid to this order in order to follow your costs and make sure that it is well looked after because it was a proto-type lot - and we receive it in this type of condition. I hope that you will be able to correct this situation in the future, but at this point we question what the future has in store for us.

It would be appreciated if you would restraighen or remanufacture the lot in question in hopes to quickly rectify this situation.

Very truly yours,

John E. Halloran
John E. Halloran
President

JEM/esj

Manufacturers of Quality Chipper, Counter, and Other Wood Related Industrial Knives/Products



Michigan Knife Co.

120 Pere Marquette St.,
Big Rapids, Michigan 49307
Phone (616) 796-7602 or 4858

West Coast Sales & Distribution Center
886 Shelley St., Springfield, Oregon 97477
Phone (503) 726-1774

"The Knife People"

June 4, 1981

Mr. Lloyd Susini
Jessop Steel
300 Green Street
Washington, Pennsylvania 15301

Dear Lloyd:

As you know, we have talked about inconsistent quality of your chipper knife steel to a point where it is now a point of major concern to me. My people are complaining about the extra time necessary to inspect and make sure your material will finish up to a finished knife, as well as my Blanchard operators have experienced a high rejection rate because thin knives have not been properly cleaning. Also we have experienced trouble from our customers saying that the knives are acting soft when in actuality the skin condition was not completely removed from the back edge of the knife due to the exceptionally thin material we received.

All of this, as you know, ends up to cost us money which I feel is unnecessary, especially when we are paying a premium for the raw material to begin with. In purging our inspection department, I have come up with the following parts that are considered junk due to thin material. They are as follows:

Size	Quantity	Size	Weight	Total Weight	Labor Cost Ea.	Total Labor
20 x 6 x 13/16	13 Pcs.	13/16 x 6	33.1	430.3	21.10	274.30
17-15/16 x 6 x 13/16	6 Pcs.	13/16 x 6	29.5	177.0	17.25	103.50
19 x 8 x 13/16	5 Pcs.	13/16 x 8	46.	230.00	22.11	110.55
12-1/2 x 6 x 5/8	3 Pcs.	5/8 x 6	14.1	42.3	7.29	21.87
14-15/16 x 6 x 13/16	1 Pcs.	13/16 x 6	27.4	27.4	17.82	17.82
31-5/32 x 8-13/16 x .786	3 Pcs.	.880 x 9	75.	225.	42.11	126.33
24-15/16 x 6 x 13/16	2 Pcs.	13/16 x 6	41.1	82.2	20.83	41.66
31-1/2 x 6 x 5/8	15 Pcs.	5/8 x 6	43	645.	18.21	273.15
				1,859.2		\$969.18

As you can see, we have accumulated 1,859 pounds on eight different items times \$1.21 per pound which is \$2,249.53 on steel alone. I calculated the \$1.21 being \$1.20 for the raw material and \$.01 for the transportation back to Big Rapids.

Manufacturers of Quality Chipper, Counter, and Other Wood Related Industrial Knives/Products

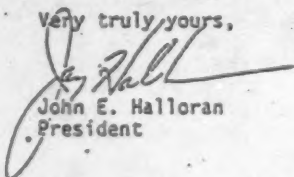
June 4, 1981
Page Two

On top of this, we have a sizable labor loss in converting the raw material at our direct standard cost with no burden. We have accumulated a \$969.18 cost bringing the total credit which I would appreciate you issuing for \$3,218.81.

Now in addition to this particular problem, we have received 8,558 pounds of 3/8 x 5-1/2 which unfortunately will not clean up. The material has been received as low as .406 to .409 in thickness. It is necessary for this material to finish up at .375 and unfortunately this will not possibly make a good 3/8 knife. The next size down is 5/16 x 5. I am not in need of this amount of tonnage but would be willing to keep it here and grind down the thickness and the width to use as 5/16 x 5 by reducing the price of some of my 5/16 x 5 knives to encourage higher sales volume. But in order to do so, I could not pay more than \$.90 per pound for this particular material.

I have been very encouraged by the program that you have done, but must say the last shipment received here on April 13, 1981 really has us concerned. We have another shipment which we will be picking up on or about the 15th of June. This material will be inspected thoroughly and give me the confidence whether we should proceed further. I firmly believe that Jessop is capable of producing a quality material, but fear the concentrated effort might have taken a back seat to some more pressing projects.

Very truly yours,


John E. Halloran
President

JEH/caj



Michigan Knife Co.

120 Pere Marquette St.,
Big Rapids, Michigan 49307
Phone (616) 796-7602 or 4858

West Coast Sales & Distribution Center
886 Shelley St., Springfield, Oregon 97477
Phone (503) 726-1774

"The Knife People"

April 10, 1981

Mr. Lloyd Susini
Jessop Steel
300 Green Street
Washington, Pa. 15301

Dear Lloyd:

On March 19, 1981 I wrote to you concerning some thin 13/16 x 8 material. We have completed usage of a certain quantity of this material and have come up with 426 pounds of scrap knives - not to mention the labor in the knives which I would like to receive credit on. In addition to the 13/16 x 8, we now have accumulated 310 pounds of 5/8 x 7-1/2 which would not clean. It was received at .657 to .675. Unfortunately .657 left us with several knives that did not clean on the back edge.

Please issue credit on these two weights accordingly. Your cooperation would be greatly appreciated.

Very truly yours,

John E. Halloran
John E. Halloran
President

JEH/cwj

Manufacturers of Quality Chipper, Counter, and Other Wood Related Industrial Knives/Products



Michigan Knife Co.

120 Pere Marquette St.,
Big Rapids, Michigan 49307
Phone (616) 796-7602 or 4858

West Coast Sales & Distribution Center
886 Shelley St., Springfield, Oregon 97477
Phone (503) 726-1774

"The Knife People"

March 19, 1981

Mr. Lloyd Susini
Jessop Steel
300 Green Street
Washington, Pa. 15301

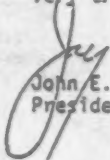
Dear Lloyd:

The last batch of 13/16 x 8 steel we received is causing us considerable trouble. The problems are that the material is too thin, plus a wave in the bar has created considerable expense through junked parts.

Per our attached sheet which is supplied with every order, your bars are running .845/.851 and to finish at .813 with equal removal and a .012/.020 wave is next to impossible. I will notify you at a later date as to the magnitude of this problem but wanted to inform you that we are experiencing this problem.

Please try to follow our suggested thickness.

Very truly yours,


John E. Halloran
President

JEH/caj

Enclosure

Manufacturers of Quality Chipper, Carver, and Other Wood Related Industrial Knives/Products



Michigan Knife Co.

120 Pere Marquette St.,
Big Rapids, Michigan 49307
Phone (616) 796-4858

West Coast Sales & Distribution Center
886 Shelley St., Springfield, Oregon 97477
Phone (503) 726-1774

"The Knife People"

October 9, 1979

Mr. Jim Calos
Gutrel Steel
Post Office Box 509
Lockport, New York 14094

Dear Jim:

I have just come back up to my office from a rather disturbing call from the shop. Upon receiving our recent load of chipper knife steel, we find that three sizes have been received with excessive edge warpage. We have just cut up the entire lot of 5/8 x 6 which is all at the present time considered junk because the knife blanks will not clean up on the back edge due to excessive warpage. I cannot see how this material could possibly leave your inspection department or get through your rolling mills in this condition. In a length of 18 inches, there is almost 1/8 inch edge warp on the average blank. Upon inspection the rest of the load, I find that the entire lot of 3/4 x 7 and 5/8 x 5, as well as the 5/8 x 6, has the same defects.

We are forced due to your deliveries to do what we can to salvage this material. At the end of our manufacturing cycle, I will be contacting you on the credits necessary to rectify this situation. I would also request that before any additional material be shipped to us, it be thoroughly inspected to within the proper tolerances.

Very truly yours,

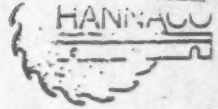
John E. Halloran
John E. Halloran
President

JEH/caj

ISION OF IKS, INC.

Factory
Box 3889 • Florence, SC 29502 • Phone (803) 662-6345 • Telex 57-3648

May 13, 1981



Mr. Lloyd Susini
Jessop Steel Company
500 Green Street
Washington, Pennsylvania 15301

Dear Mr. Susini:

The recent shipments on Jessop type 86 grade chipper steel were not satisfactory to us. Although, particularly on the last shipment, the multiples were (at least theoretically) close to what we require, the steel had several other problems attached to it.

When you visited with us we showed you considerable waviness in the material and now after most of the steel has been cut up we must say that this problem is even larger than we originally anticipated. We had about 6 pieces to straighten which took three of our hammermen about 14 hours to correct. In addition to this, we found more of this material not properly cut in the ends. In fact, it looks like some of the sizes were not cut at all. Where the multiples situation is concerned, on most of the material the length was correct but due to the fact that on quite a few bars we could not use the end pieces, we lost a whole knife per bar.

One problem of grave concern to us (unfortunately not discovered before the recent meeting) is the fact that most of the steel to finish 6" x 5/8", shipping ticket #75726, is extremely bad and porous. This is true for most of that particular shipment of 12,454 pounds. To make things even worse, we now discovered (only in our final grinding operation) that at least one full plate was rolled too thin. This material measures up at .630 to .635 in the raw stage and it was supposed to finish up at .625. As mentioned, this was not detected during our incoming inspection and we used the material and now have a finished product which is unsaleable. The total order for 450 knives size 32" x 6" 5/8" was for export and up to this point we have already discovered 20 pieces which we cannot clean up.

On the material to finish 6 1/2" x 5/8", your shipping ticket #75648, we found several bars with deep surface cracks. We used this material since we were really in a bind on delivery for knife but found quite a few pieces which we could not clean up, even though we ground the knives already undersized.

-continued-

Web Offices

P.O. Drawer B • West Monroe, LA 71291



Divisions of IKS



Jessop Steel Company
500 Green Street
Washington, Pennsylvania 15301

May 13, 1981

Page Two

In a shipment we are making to you today, we are sending you samples of each of the various problem areas.

- (1) 8 x 1 steel - not straight and bad ends
- (2) 6 x 5/8 steel - porous and rolled to wrong thickness
- (3) 4 x 2 material - not cut at all in the ends
- (4) 6 1/2 x 5/8 material - one finished knife still showing surface cracks despite having taken off about .040 and now being undersized at .610 dimension

Since all of the material out of the recent shipment has not been cut yet, we are not in a position to give you the final material we cannot use due to being undersized, unacceptable surface, bad ends, or wrong multiples. We would like to point out, though, before a final conclusion is made, that material in the conditions described above is not going to be acceptable by our company at all in the future. As you know, we were real pleased, or we might even say impressed, with the earlier material shipments we received from you. The quality of the material has deteriorated to such a point now that we are afraid to purchase any additional steel from your company. We would propose that the four pieces we are sending you today be checked immediately after receipt and then we would like to have your suggestions on how to prevent this from happening again in the future.

Thanks for your cooperation.

Yours truly,

HANNACO KNIVES & SAWS
Division of IKS, Inc.

Horst Brautigam
Vice President

HB/ak



HANNACO KNIVES & SAWS, INC.

P. O. BOX 3889 • FLORENCE, S. C. 29502 • PHONE (803) 662-6345 • TELEX 57-344

BRANCH OFFICES

P. O. Drawer B
West Monroe, LA. 71291
(318) 368-2539

P. O. Box 2498
Eugene, OR. 97402
(503) 483-8225

April 2, 1980

Senator Herman E. Talmadge
109 Russell Senate Office Building
Washington, D. C. 20013

Reference: Bill Number HR 2535

Dear Senator Talmadge:

It has been brought to our attention that the two opponents of Bill No. HR 2535 are under the impression that our company does not favor further action on this Bill. This is absolutely incorrect. In fact, in our telegram to you dated February 1, 1980 we asked for your help in having the Bill passed just as quickly as possible. For your consideration, we would like to mention a few details about how our company looks upon the two opponents as suppliers.

A. Guterl Steel - Lockport, New York

In 1978 we were informed that Guterl Steel was interested in getting started in chipper steel manufacturing. We did place some orders with the organization which were promptly delivered at a slightly higher price than what we were paying at that time from our overseas supplier. Additional orders were placed after the initial trial and the quality as well as the reliability on delivery deteriorated. In fact, it got worse from one order to another. The middle of last year we were informed by Guterl Steel that they were not interested in continuing their chipper steel program for cost reasons. In fact, we were told the price would have to be increased by 65% in order to make this a profitable item. There has not been any additional orders placed with Guterl since the middle of last year and we do not intend any future purchases even if Guterl Steel would be competitive with their product, as we have serious doubts of their being capable of solving their quality problems.

--continued--

Senator Herman E. Talmadge
109 Russell Senate Office Building
Washington, D. C. 20013

April 2, 1980

Page Two

B. Bethlehem Steel - Bethlehem, Pennsylvania

Early last year Bethlehem informed us that they had developed a new type of chipper steel. We were assured that the performance would be considerably better (approximately 50%) than the presently used chipper steel and their price would definitely be competitive, which at that time would have meant approximately \$.80 per pound. On this basis, Hannaco purchased a small amount of steel. At this time it already turned out that the price was no longer competitive. The reason given for this was that Bethlehem had substantial cost increases since developing the product. Purchasing this particular steel today from Bethlehem would only be possible if we asked for a higher price for the finished product, and test results made by several of our customers have not been encouraging enough for them to pay a higher price for the chipper knives made from Bethlehem steel. Our purchases from Bethlehem Steel were less than 1% of our total 1979 steel requirements. At the present time there is no firm order for steel pending with Bethlehem.

It looks to us that both companies in their lobbying are trying to use tactics which are not representing the true picture. We would hope that our today's explanation will be taken into consideration in your supporting this Bill even more so than you did in the past.

Yours truly,

HANNACO Knives & Saws, Inc.

Horst Brautigam
Vice President

HBak

ATTACHMENT 5

TESTIMONY OF JOHN E. HALLORAN,
PRESIDENT OF MICHIGAN KNIFE CO.,
BEFORE
THE U.S. INTERNATIONAL TRADE COMMISSION
HEARING ON STAINLESS STEEL AND ALLOY TOOL STEEL
ON SEPTEMBER 9, 1977

I. INTRODUCTION

My name is John E. Halloran. I am the president of Michigan Knife Co., which is located in Big Rapids, Michigan. I come before you today only to request that you advise the President to remove restrictions on the importation of a peculiar grade of special analysis alloy tool steel that is of little interest to specialty steel manufacturers in the United States, but which is of vital importance to the survival of American companies in the chipper knife industry. I shall refer to this particular grade of alloy as "chipper knife steel" since more than 95% of such steel is consumed as a raw material in the production of chipper knives. This grade of steel is described in Exhibit I on page 17 of this statement.

I am not taking any position with respect to changes in import restraints other than those which apply specifically to chipper knife steel. Indeed, in appropriate circumstances I do not oppose the imposition of import quotas. But I submit that, upon consideration of the special circumstances which apply to the market for chipper knife steel, the Commission will be persuaded that import restrictions on chipper knife steel do more harm than good to the general efforts of United States manufacturers to compete against foreign imports.

II. SUMMARY OF ARGUMENTS

The import restrictions on chipper knife steel interfere with the only available major sources of chipper knife raw materials and are damaging to the normal operations and growth of both Michigan Knife Co. and the American chipper knife industry. The profit margin on chipper knife steel is relatively low and if the quota remains applicable to it, foreign suppliers will maximize their profits by reducing or eliminating the availability of chipper knife steel in the United States. The effect of these quotas threatens to force us to close our doors -- with consequent unemployment of American workers, loss of American production capacity, loss of American investment dollars, and economic loss to our communities -- in my case Big Rapids, Michigan. The United States specialty steel industry apparently cannot and certainly will not supply us with our raw materials requirements, whether or not there are import quotas on chipper knife steel. The only real effect of the quotas on chipper knife steel is to drive American manufacturers out of business, allowing another American market to fall under the exclusive control of foreign manufacturers.

III. THE IMPORT RESTRICTIONS ON CHIPPER KNIFE STEEL HAVE INJURED, AND WILL FURTHER INJURE, MICHIGAN KNIFE CO. AND THE AMERICAN CHIPPER KNIFE INDUSTRY.

A. The Chipper Knife Industry

Michigan Knife Co.'s principal line of business is the production of chipper knives -- wood-related industrial knives

which are used in machines that chip wood to make pulp and other wood fiber products. The manufacture of wood-cutting knives, which we sell throughout the United States, is my company's sole business. The production of chipper knives requires the special analysis alloy tool steel described in Exhibit I as a raw material.

As a member of the chipper knife industry, Michigan Knife Co. faces strong competition from the importers of finished chipper knives. Such knives are imported from a number of countries, including Finland, Sweden, Germany, Austria, and Japan. The major foreign wood knife importers against whom we must compete are listed in Exhibit II on page 18.

Over the years several domestic chipper knife manufacturers have been forced to leave the market because of this foreign competition. Exhibit III on page 19 lists American manufacturers that have ceased or drastically curtailed their manufacture of chipper knives over the past ten years. At the present time four firms continue to manufacture and actively market chipper knives in the United States, but only two of these, Michigan Knife Co. and Simonds Cutting Tools of Fitchburg, Massachusetts are American-owned firms. The other two manufacturers in the United States -- Disston, Inc., of Seattle, Washington, and Hannaco, of Florence, South Carolina -- are divisions of foreign companies. Exhibit IV on page 20 lists the United States manufacturers of chipper knives.

All four United States manufacturers, including both American-owned firms, must rely principally on foreign sources of special analysis alloy steel for their raw materials. Exhibit V on page 21 lists the estimated steel consumption and the sources of raw materials for each United States manufacturer of chipper knives.

The chipper knife market has great potential for expansion since the wood chips made with chipper knives are being put to an increasing variety of uses in order to more fully utilize our trees -- our only naturally renewable resource. Wood chips are used for the treatment of sewage, the production of paper and corrugated boxes, landscaping, and other rapidly growing sources of demand. This expansion promises to increase rapidly in response to current concerns over our supply of energy and the protection of the environment. This exciting market potential will be forfeited to foreign chipper knife manufacturers if American firms like Michigan Knife Co. are unable to compete against them because of import restrictions on our sources of raw material.

B. Michigan Knife Co.

Michigan Knife Co. was incorporated in July of 1974, at which time I became the company's president. I had worked in the wood knife industry for ten years previous to 1974 with U.S.M. Corp. (formerly United Shoe Machinery Corp.), so that I entered

the chipper knife industry with a good knowledge of the economic requirements for building a successful firm in this product line. Similarly, the investors in Michigan Knife Co., of which I am one, also had a basic understanding of the wood knife industry when we began in 1974. On the basis of this understanding, we designed and engineered production facilities which fit the market context as it existed at that time. This context was drastically changed in 1976 when the President's import quotas threatened to close our major sources of supply.

Michigan Knife Co. employs 65 American workers to whom it pays wages and salaries which exceed \$670,000 annually. In addition, Michigan Knife must make interest and principal payments on debts which exceed \$2 million. The repayment of these obligations depends upon stable levels of sales, revenues, and supplies of raw materials.

Almost 70% of my costs of manufacturing chipper knives are for raw materials. Michigan Knife Co. presently consumes between 750 and 1,000 tons of chipper knife steel annually. Only one other American-owned firm uses this raw material in such amounts; the others use less. As a result, the United States specialty steel industry has not attempted to produce sufficient quantities of chipper knife steel to satisfy domestic needs.

C. Sources of Michigan Knife Co.'s Requirements for
Chipper Knife Steel

At the present time, Michigan Knife purchases 60% of its chipper knife steel requirements from Roechling-Burbach of Germany, 25% from Uddeholm Tool Steel of Sweden, and 15% from Universal-Cyclops of Pittsburgh, Pennsylvania. Michigan Knife Co. would prefer to purchase more of its steel requirements from American manufacturers. However, Universal-Cyclops is the only specialty steel mill in the United States with both the capacity and the interest to supply the grade of alloy steel which Michigan Knife Co. requires at a price which allows us to compete with the importers of our finished product -- chipper knives. A Universal-Cyclops representative has informed Michigan Knife Co. that it is not in a position to supply substantially more of our requirements because their production facilities for manufacturing this grade of alloy tool steel are already operating at near capacity levels. I was also told that they would be reluctant to accept an increase in order levels because that would dilute their ability to produce higher margin alloys. Even now, Michigan Knife has received a substantial proportion of short shipments from Universal-Cyclops during the past several months.

Michigan Knife Co. has purchased a significant amount of its requirements from Universal-Cyclops -- even at prices higher than those which we pay to our foreign sources of supply. We are happy to have Universal-Cyclops as one of our suppliers

of raw materials and we shall continue to purchase a substantial part of our requirements from them. But neither Universal-Cyclops nor any other United States specialty steel manufacturer can supply us with all or even most of the requirements we need to survive the foreign competition in the markets in which we sell.

I have approached ten other American manufacturers of specialty steel to request that they fill some of our requirements for raw materials. None of these firms can supply our needs at competitive prices. Some producers have indicated that they do not presently have the capability even to produce the grade of alloy steel used by Michigan Knife. Other producers have offered to supply some of Michigan Knife's requirements for this particular grade of steel, but at prices ranging from 30% to more than 100% higher than the prices offered by foreign sources of specialty steel. For instance, Teledyne Vasco offered to sell at \$1.96 per pound steel which Michigan Knife can purchase from foreign suppliers at price ranges between 72 and 86 cents per pound. Exhibit VI on page 22 summarizes Michigan Knife Co.'s attempts to interest other American specialty steel manufacturers in selling us our requirements for specialty steel, along with the responses received from each of the firms contacted. I would be glad to make available to the Commission copies of the correspondence between Michigan Knife Co. and these firms with regard to this matter. I would

also like to note that none of the United States specialty steel manufacturers listed in Exhibit VI have contacted me since their initial, negative responses.

The inability, or unwillingness, of American specialty steel manufacturers to supply our requirements for raw materials at a competitive price has forced Michigan Knife Co. to rely on foreign sources of specialty steel. Without foreign steel, Michigan Knife Co. would be forced to drastically curtail its production -- or, possibly, to close its doors -- with resulting unemployment of American workers, loss of American production capacity, loss of opportunities for investment in American business, and economic loss to the community of Big Rapids, the state of Michigan, and the United States of America.

D. The Disruptive Impact of the Alloy Tool Steel Import Restrictions on the Chipper Knife Industry

The import quotas on alloy steel have repeatedly disrupted operations and planning in the chipper knife industry. In October, 1976, 50,000 pounds of steel from Michigan Knife's German supplier were impounded in a bonded warehouse in Detroit because the specialty steel quota on imports from Germany had been halted for recount. At the present time, almost 110,000 pounds of steel are being held in a bonded warehouse. These continuous interruptions in the flow of our supply of raw materials limit our ability to grow to meet an increasing demand for our

product as well as our ability to employ more American workers. At the same time that our orders have been increasing, our supplies of raw materials have declined -- as a direct result of the import quotas on chipper knife steel. Since American manufacturers have not moved to fill the demand that has been created artificially by the import quotas, the only effect of such quotas has been to reduce the ability of American firms like Michigan Knife Co. to compete with foreign manufacturers.

E. The Discriminatory Effect of the Alloy Tool Steel
Import Restrictions on the Supply of Chipper Knife
Steel

The import restrictions on alloy tool steel have discriminated against chipper knife steel imports. They have not just limited our foreign sources of supply, they have jeopardized their very existence.

Although the profit margin on chipper knife steel is relatively low, foreign steel manufacturers were ready and able

to supply the requirements of Michigan Knife Co. and other chipper knife manufacturers until the import quotas were imposed. However, the quotas have increased the costs of foreign manufacturers who cannot afford the risk of having this lower profit grade of steel impounded for long periods of time in bonded warehouses.

In fact, the import restrictions which apply to all alloy tool steel imports taken as a whole have motivated foreign manufacturers to export and importers to import the grades of alloy tool steel which are most profitable. The result of this perfectly predictable, profit-maximizing strategy has been a disproportionate decrease in the importation of chipper knife steel such that imports of that grade of alloy are likely to fall below the levels which existed prior to the import restraint program. Letters from our only two foreign suppliers confirming this result are set forth on pages 23 and 24 as Exhibits VII and VIII.

This is contrary to the statutory requirement that import relief in the form of quantitative import restrictions must "permit the importation of a quantity or value of the article which is not less than the quantity or value of such article

imported into the United States during the most recent period which the President determines is representative of imports of such article."¹

IV. THE IMPORT RESTRICTIONS ON CHIPPER KNIFE STEEL DO NOT SERVE THE PURPOSES FOR WHICH THE IMPORT RESTRICTIONS ON ALLOY TOOL STEEL WERE IMPOSED AND ARE NOT JUSTIFIED UNDER THE TRADE ACT OF 1974.

In January, 1976, this Commission recommended that the President impose import quotas on stainless steel and on various grades of alloy tool steel manufactured in certain mill forms because it was concluded that increasing imports of such steel constituted a substantial cause of serious injury, and a threat of serious injury, to domestic industries producing similar steel.² The President generally accepted your advice and imposed a set of import quotas on stainless steel and alloy tool steel on June 11, 1976.³

However, it was soon learned that the definitions used with respect to the import quotas were framed in terms that were

-
1. Trade Act of 1974, §203(d)(2), 19 U.S.C.A. §2253(d)(2) (Supp. 1977).
 2. U.S. International Trade Commission, Stainless Steel and Alloy Tool Steel, Report to the President on Investigation No. TA-201-5 under Section 201 of the Trade Act of 1974 (January 1976).
 3. Presidential Proclamation 4445, 41 Fed. Reg. 24101 (1976).

broadier than necessary to accomplish the intended result. Consequently, the President issued a new set of import quotas for alloy tool steel on November 16, 1976, to rectify an insufficiency in alloy tool steel supply which had been caused by the inclusion of steel used to produce roller and ball bearings within the quantity of steel measured for the purposes of the June 1976 quotas.⁴

President Carter has now asked you to advise him of your judgment as to the probable economic effects on domestic industry of a reduction or termination of the import restrictions on stainless steel and alloy tool steel.⁵ As I understand the statutory criteria which guide you in your evaluation of these import restrictions, I submit that you must find that the continuation of import restrictions on chipper knife steel would serve no useful purpose under the Trade Act of 1974.

One of the considerations you must take into account in evaluating the effects of import restrictions is the effect of import relief on consumers, including the price and availability of the imported article and similar articles produced in the

4. Presidential Proclamation 4477, 41 Fed. Reg. 50969 (1976).

5. Letter from Robert S. Strauss, Special Representative for Trade Negotiations, to Daniel Minchew, Chairman of the U.S. International Trade Commn., (May 25, 1977); see 42 Fed. Reg. 32323 (June 24, 1977).

United States.⁶ The import restrictions on chipper knife steel have reduced the flow of imports of such steel without stimulating a corresponding increase in domestic production. As a result, the consumers of chipper knife steel -- the few American companies which manufacture chipper knives -- have been beset by temporary shortages, unpredictability of future supplies, the likelihood that foreign imports will be further reduced, and increases in price. The one American specialty steel company which produces chipper knife steel in substantial quantities is unable to supply the requirements of American chipper knife companies.

Other American specialty steel companies have not been interested in supplying large quantities of this grade of alloy tool steel at competitive prices. Therefore, the effect of this import relief -- with respect to chipper knife steel -- has been to disrupt the businesses of the few American companies which consume such steel and to put such companies at a competitive disadvantage vis-a-vis foreign companies exporting finished chipper knives to the United States.

In evaluating "the progress and specific efforts made by the industry concerned to adjust to import competition,"⁷ the

6. Trade Act of 1974, §202(c)(4), 19 U.S.C.A. §2252(c)(4) (Supp. 1977).

7. Trade Act of 1974, §203(i)(4); 19 U.S.C.A. §2253(i)(4) (Supp. 1977).

Commission should note that the specialty steel industry has not shown much interest in producing the grade of special analysis alloy tool steel required for the production of chipper knives.⁸ The lack of interest, and effort, by the specialty steel industry in supplying American consumers of chipper knife steel is near-conclusive evidence that the import restrictions on such steel have had a negligible effect on the domestic specialty steel industry whereas they have had a serious, negative effect on the consumers of such steel -- the chipper knife manufacturers.

Finally, I submit that increased importation of this grade of special analysis alloy tool steel would not constitute a substantial cause of serious injury or a threat of serious injury, to domestic steel producers.⁹ When the quotas created artificially high demands for this grade of steel during the past year, American specialty steel companies did not attempt to supply more of such steel at reasonable prices. In this respect, I submit, the considerations raised by the importation of chipper knife steel resemble the considerations raised by the importation of razor blade steel, which led this Commission to recommend that razor blade steel be excluded from the quotas on stainless steel imports. I feel that a similar exclusion is justified for chipper knife steel imports.

8. See Exhibit VI on page 22.

9. Trade Act of 1974, §201(b)(1); 19 U.S.C.A. §2251(b)(1) (Supp. 1977).

V. CONCLUSION

The import quotas which apply, in a discriminatory fashion, to chipper knife steel have constituted a substantial cause of injury to our firm and our industry with no corresponding benefit to United States specialty steel companies. I appear before you to seek equitable treatment of imports of a grade of steel used almost exclusively in one specialized industry -- the production of wood chipper knives -- a grade which is not produced by American steel companies in quantities that are sufficient to supply the shortfall created by existing quotas.

Michigan Knife Co. does not seek to favor foreign manufacturers. We seek to compete with foreign manufacturers, to drive them from our markets, to employ more American workers, and to favor American sources of our raw materials -- if those American sources can supply the raw materials we need, at reasonable prices, to survive in, what is for us, a world market.

I urge the Commission to recommend to the President that the Tariff Schedules of the United States be amended so as not to limit the importation of chipper knife steel. I submit that such an action would produce a net gain to the American economy. It would have a negligible effect on the American producers of specialty steel, while allowing American manufacturers in the chipper knife industry -- an industry which may otherwise

be overwhelmed by foreign competition -- to survive. Without such relief, Michigan Knife Co. is destined to go the way of other small American manufacturing companies which have been wiped out by foreign competitors.

I am ready to answer any questions that you may have and to provide any other information which you need.

Thank you.

-17-

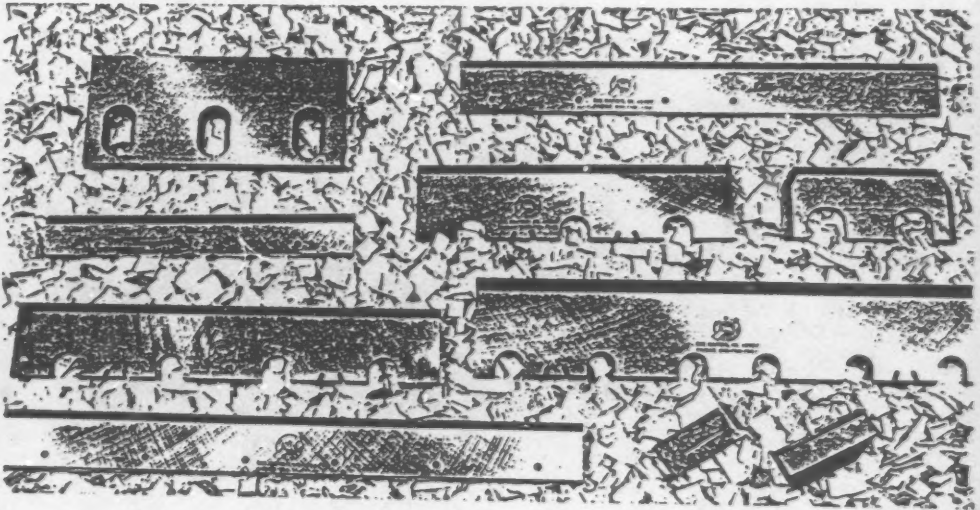
EXHIBIT I
CHIPPER KNIFE STEEL:
THE ALLOY TO BE EXCLUDED FROM IMPORT RESTRICTIONS

MATERIAL Grade A (Medium C - Medium Chrome, Tungsten, Vanadium,
COMPOSITION: & Moly

	<u>Aim</u>	<u>Range</u>
Carbon	.50	.48 - .55
Silicon	.85	.75 - 1.00
Manganese	.30	.20 - .40
Tungsten	1.40	1.25 - 1.75
Chrome	8.00	7.25 - 8.50
Vanadium	.35	.20 - .40
Moly	1.50	1.25 - 1.75

FORM: Bar 14/16 feet in rectangular random lengths

DEPICTION OF
TYPICAL CHIPPER
KNIFE BLADES:



APPLICATION: An air hardening, non-deforming tool steel developed
 for minimum distortion during hardening and hot

EXHIBIT I

(Page 2)

straightening is permissible. This tool steel has very good shock resistant and wear resistant properties. This steel's primary use is for the manufacture of wood cutting chipper knives.

HARDNESS: As received hardness shall be Brinell 180-229 / RB 99 maximum.

TOLERANCES: Thickness .055 to .072 over finished size. Width .072 to .090 over finished size.

CONDITION:

- (1) Material shall be supplied hot-rolled and annealed to Brinell hardness specifications.
- (2) Fine grain #5 to #8.
- (3) Physical-3,500 to 4,000 pounds maximum per bundle.
- (4) Oil and paint free.
- (5) Metal straps - no wooden boxes.
- (6) No wrapping of material for shipment other than metal straps.

DECARB: Minimum decarb .010 to .020 thick per size shot peened or pickled to minimum decarb.

EXHIBIT IIFOREIGN CHIPPER KNIFE MANUFACTURERS

1. Canadian Car (Vancouver, British Columbia)
2. Hannaco (American plant in Florence, South Carolina, but headquarters in Klingelberg, Germany)
3. Long International (Finland)
4. Neumeyer & Dimond/Martin Miller (division of Bohler Brothers of Austria)
5. Sandvik Steel/Disston Manufacturing (Sweden)
6. Stridesburg (Sweden)
7. Toyo Knife Company (Japan)
8. Triangle T- Terre Ta Haute (Finland)
9. Uddeholm Tool Steel (Sweden) (exports semi-finished knife blanks)
10. U.S. Knife Company/Bohler Brothers of America (Austria)

The chipper knife industry is dominated by foreign manufacturers. The quota on chipper knife raw materials helps these foreign companies to thrive at the expense of American manufacturers.

EXHIBIT IIIAMERICAN CHIPPER KNIFE MANUFACTURERS
THAT HAVE CEASED OR CURTAILED MANUFACTURE
OF CHIPPER KNIVES

American Custom Metals (Cincinnati, Ohio)
American Shear Knife (Homestead, Pennsylvania)
Atkins (Greenville, Mississippi)
Bolton-Emerson (Lawrence, Massachusetts)
Coes Knife (Worcester, Massachusetts)
Cumberland Engineering (Pawtucket, Rhode Island)
Detroit Edge Tool (Detroit, Michigan)
Disston Manufacturing (Seattle, Washington)
Lancaster Knife (Lancaster, Pennsylvania)
Ohio Knife Co. (Cincinnati, Ohio)
R. Hoe & Co. (Seattle, Washington)
Stalter Edge Tool Co. (Grand Rapids, Michigan)
United Shoe Machinery (Medway, Massachusetts)
Wapakoneta (Wapakoneta, Ohio)
Wisconsin Knife Works, Inc. (Beloit, Wisconsin)
Yates American (Roscoe, Illinois)

EXHIBIT IVUNITED STATES CHIPPER KNIFE MANUFACTURERS

1. Disston, Inc. (Seattle, Washington -- division of Sandvik of Sweden)
2. Hannaco (Florence, South Carolina -- division of Klingelnberg of Germany)
3. Michigan Knife Co. (Big Rapids, Michigan -- subsidiary of Morbark Industries of Winn, Michigan)
4. Simonds Cutting Tool (Fitchburg, Massachusetts -- division of Wallace Murraray)

These four manufacturers consume almost all of the chipper knife steel imported into or manufactured in the United States.

EXHIBIT VESTIMATED ANNUAL U.S. CONSUMPTION
OF CHIPPER KNIFE STEEL*

<u>Firm</u>	<u>Consumption</u> (In Tons)	<u>Suppliers</u>	
Hannaco (Florence, S.C.)	750 - 1,000	Uddeholm Tool Steel (Sweden)	-- 90%
		Universal-Cyclops (Pennsylvania)	-- 10%
Michigan Knife Co. (Big Rapids, Mich.)	750 - 1,000	Roehling (Germany)	-- 60%
		Uddeholm Tool Steel (Sweden)	-- 25%
		Universal-Cyclops (Pennsylvania)	-- 15%
Disston, Inc. (Seattle, Wash.)	500 - 750	Uddeholm Tool Steel (Sweden)	-- 50%
		Universal-Cyclops (Pennsylvania)	-- 50%
Simonds Cutting Tools (Fitchburg, Mass.)	500 - 750	Uddeholm Tool Steel (Sweden)	-- 50%
		Simonds (New York)	-- 30%
		Roehling (Germany)	-- 20%
All Others	<u>500</u>		
TOTAL	3,000 - 3,500		

* Estimates reflect my best knowledge. It is difficult to obtain full information from all American manufacturers.

EXHIBIT VI

RESPONSES FROM DOMESTIC SPECIALTY STEEL COMPANIES
TO MICHIGAN KNIFE CO.'S INQUIRIES ABOUT PURCHASING
CHIPPER KNIFE STEEL

<u>Location</u>	<u>Response</u>
Universal-Cyclops Specialty Steel (Pittsburgh, Pennsylvania)	Limited Quantities at higher but not prohibitive prices
Allegheny Ludlum Industries (Pittsburgh, Pennsylvania)	Referral to Al Tech
Al Tech Specialty Steel Corporation (Dunkirk, New York)	Negative
Bethlehem Steel (Bethlehem, Pennsylvania)	Negative (offered nonconforming goods)
Carpenter Steel Division (Troy, Michigan)	Prohibitively expensive
Colt Industries (crucible) (Pittsburgh, Pennsylvania)	Prohibitively expensive
Columbia Tool Steel (Chicago, Illinois)	No reply
Jessop Steel (Washington, Pennsylvania)	Negative
Latrobe Steel (Latrobe, Pennsylvania)	Negative
Simonds Steel (Lockport, New York)	Prohibitively expensive
Teledyne Vasco (Latrobe, Pennsylvania)	Prohibitively expensive

Copies of the correspondence which is summarized in this chart will be made available to the Commission upon request.

EXHIBIT VII**RÖCHLING**

RÖCHLING STEEL INCORPORATED
P.O. Box 91
Whitestone, N.Y. 11357

Telephone: 212-767-1210
Western Union No. 960130

Michigan Knife Co.
120 Pere Marquette St.
Big Rapids, Mich. 49307

Mr. John E. Halloran

29 August 1977
Our letter # 4750

Re Specialty Steel Quota

Dear John:

This is in reference to our conversation in your office in which I explained to you the great difficulties we have due to the imposed specialty steel quota.

Due to the quota, Roechling can no longer guarantee shipments of wood chipper knife steel and there is no way of finding out which quantity can be shipped. The quota for tool steel for E.E.C. was closed after the first day. It reopened on 6/14/77.

Wood chipper knife steel is - as mentioned to you - a very difficult product to produce and the price is most competitive, and we might be forced due to the problems and obligations we have to discontinue to provide you with wood chipper knife steel.

We appreciate your understanding and remain,

Very truly yours
Roechling Steel Inc.

E. Zwolinski
E. Zwolinski

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EXHIBIT VIII

UDDEHOLM STEEL CORPORATION

Home Office:
721 Union Blvd., Totowa, N.J. 07511 • N.J. 201-256-8000 • N.Y. 212-947-1281

August 2, 1977

Mr. John E. Halloran
Michigan Knife Co.
120 Pere Marquette Street
Big Rapids, Michigan 49307

APPR BY: _____
EXT CKD BY: _____
RECD AUG 4 - 1977 RECD
DATE PAID _____
CHECK NO. _____

Dear Jay,

With reference to the situation we have discussed several times in our supplying to you chipper material, we confirm to you that because of the quota restrictions we are forced to cut back on our sales of chipper material.

We will do everything possible to continue to be a supplier to you. However, the tonnages you need may have to be reduced, since it will in all probability be impossible for us to supply you.

Very truly yours,

James A. Robinson
James A. Robinson
Product Manager - Tool Steel

JAR/ab

RELEVANT EXCERPTS FROM REPORT
OF
THE UNITED STATES INTERNATIONAL TRADE COMMISSION
ON
STAINLESS STEEL AND ALLOY TOOL STEEL

October 1977

CHAIRMAN MINCHEW:

"I am . . . of the judgment that the termination of import relief with respect to the chipper knife blade steel . . . , covered by TSUS item 923.26, would not have a serious adverse economic effect on the domestic industry." (page 7) (emphasis supplied)

". . . the [import] restraints have caused some difficulties to U.S. consumers which can be rectified without adverse economic effect on the U.S. industry. In my opinion, shifts to higher priced products have placed a hardship on importers of chipper knife blade and band saw steel, who must compete with foreign manufacturers who export the finished product. I do not believe termination of the restraints on these items would have a serious adverse economic effect on the U.S. industry concerned." (page 9) (emphasis supplied)

COMMISSIONER ABLONDI:

"Testimony before the Commission established that quotas have imposed hardships on numerous domestic consumers. Traditional supply patterns have been disrupted causing both uncertainty of supply and increased inventory costs. These conditions caused upward price pressures which in turn have an adverse effect not only on consumers but also on the competitive position of end-product manufacturers. Domestic producers of stainless steel and alloy tool steel have in some instances been unable, or find it unattractive, to supply end-product manufacturers with necessary specialty steel." (page 12) (emphasis supplied)

THE COMMISSION STAFF:

"There are . . . indications that foreign suppliers have upgraded their product mix to export as many high value products as possible to maximize their earnings on quota restrained articles and to dampen the impact of quota categories which are rapidly filled. The reduction in imports of steels used in the manufacture of cutting blades, one of the many items imported as alloy tool steel, is one such example. . . .

"A change in product mix has also occurred wherein the foreign supplier of specialty steel items under quota reduces exports of these items and increases exports of end products made from specialty steel." (page A-36) (emphasis supplied)

THE PRESIDENT

[3195-01]

Proclamation 4559

April 5, 1978

*Modification of Temporary Quantitative Limitations on the Importation into the United States of Certain Articles of Alloy Tool Steel**By the President of the United States of America***A Proclamation**

1. Proclamation No. 4445, of June 11, 1976, as modified by Proclamation No. 4477 of November 16, 1976, and Proclamation No. 4509 of June 15, 1977, imposed quantitative restrictions on the importation of certain articles of specialty steels. Section 203(h)(4) of the Trade Act of 1974 (the Trade Act) (19 U.S.C. 2253(h)(4)) permits the President to reduce or terminate any such relief if, after taking into account advice received from the United States International Trade Commission (USITC) and after seeking advice from the Secretaries of Commerce and Labor, the President determines that the reduction or termination is in the national interest.

2. I have sought and received advice from the USITC and from the Secretaries of Commerce and Labor concerning the effects of reducing or terminating import relief provided by Proclamation No. 4445, as modified by Proclamation No. 4477 and Proclamation No. 4509, on steel provided for in item 923.26 of the Tariff Schedules of the United States (TSUS). I have determined, after considering that advice, that the exclusion of certain steels provided for in item 923.26 of the TSUS, known as chipper knife steel and band saw steel, from such quantitative restrictions is in the national interest.

3. Accordingly, the purpose of this proclamation is to terminate in part Proclamation No. 4445 of June 11, 1976, as modified by Proclamation No. 4477 of November 16, 1976, and Proclamation No. 4509 of June 15, 1977, so as to exclude so-called chipper knife steel and band saw steel provided for in item 923.26, TSUS, from the present quantitative restrictions for the remainder of the restraint period which began on June 14, 1977 and the entire restraint period beginning on June 14, 1978, and to make an appropriate reduction in the quota quantities for item 923.26, TSUS, applicable to the European Economic Community and Sweden for the restraint period beginning June 14, 1978 to reflect the exclusion of so-called chipper knife steel and band saw steel. The authority for this action is set forth in section 203(h)(4) (19 U.S.C. 2253(h)(4)), and section 125(b) (19 U.S.C. 2134(b)) of the Trade Act.

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, acting under the authority vested in me by the Constitution and the statutes of the United States, including sections 125 and 203 of the Trade Act (19 U.S.C. 2135 and 2253, respectively), do proclaim that—

A. Subpart A, part 2, of the Appendix to the TSUS (19 U.S.C. 1202) is modified as follows:

(1) by modifying headnote 2(a)(iii) to read as follows:

"(iii) The term 'alloy tool steel' in item 923.26 refers to alloy steel which contains the following combinations of elements in the quantity, by weight, respectively indicated: not less than 1.0% carbon and over 11.0% chromium; or not less than 0.3% carbon and 1.25% to 11.0% inclusive chromium; or not less than 0.85% carbon and 1% to 1.8% inclusive manganese; or

THE PRESIDENT

0.9% to 1.2% inclusive chromium and 0.9% to 1.4% inclusive molybdenum; or not less than 0.5% carbon and not less than 3.5% molybdenum; or not less than 0.5% carbon and not less than 5.5% tungsten;

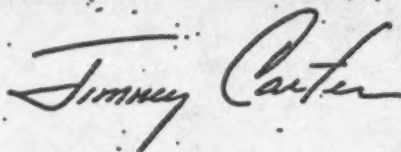
but does not include the three following types of alloy tool steel which contain, in addition to iron, each of the specified elements by weight in the amounts indicated:

- | | | |
|-----|-------------|--|
| (1) | carbon: | not less than 0.95 nor more than 1.15 percent; |
| | manganese: | not less than 0.22 nor more than 0.48 percent; |
| | sulfur: | none, or not more than 0.03 percent; |
| | phosphorus: | none, or not more than 0.03 percent; |
| | silicon: | not less than 0.18 nor more than 0.37 percent; |
| | chromium: | not less than 1.25 nor more than 1.65 percent; |
| | nickel: | none, or not more than 0.28 percent; |
| | copper: | none, or not more than 0.38 percent; |
| | molybdenum: | none, or not more than 0.09 percent; or |
| (2) | carbon: | not less than 0.48 nor more than 0.55 percent; |
| | manganese: | not less than 0.20 nor more than 0.50 percent; |
| | silicon: | not less than 0.75 nor more than 1.05 percent; |
| | chromium: | not less than 7.25 nor more than 8.75 percent; |
| | molybdenum: | not less than 1.25 nor more than 1.75 percent; |
| | tungsten: | none, or not more than 1.75 percent; |
| | vanadium: | not less than 0.20 nor more than 0.55 percent; or |
| (3) | carbon: | not less than 0.47 nor more than 0.53 percent; |
| | manganese: | not less than 0.60 nor more than 0.90 percent; |
| | sulfur: | none, or not more than 0.015 percent; |
| | phosphorus: | none, or not more than 0.025 percent; |
| | silicon: | not less than 0.10 nor more than 0.25 percent; |
| | chromium: | not less than 0.90 nor more than 1.10 percent; |
| | nickel: | not less than 0.50 nor more than 0.70 percent; |
| | molybdenum: | not less than 0.90 nor more than 1.10 percent; |
| | vanadium: | not less than 0.08 percent nor more than 0.15 percent; |

(2) by inserting "3,167" and "8,295" in lieu of the existing quota quantities applicable to the European Economic Community and Sweden, respectively, in the quota quantity column headed June 14, 1978, for item 923.26.

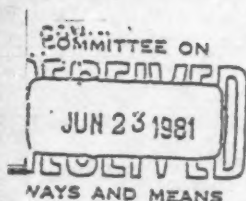
B. The modifications of subpart A of part 2 of the Appendix to the TSUS, made by this proclamation, shall be effective as to articles entered, or withdrawn from warehouse, for consumption on and after the second day following the date of publication of this proclamation in the FEDERAL REGISTER.

IN WITNESS WHEREOF, I have hereunto set my hand this fifth day of April, in the year of our Lord nineteen hundred and seventy-eight, and of the Independence of the United States of America the two hundred and second.



[FR Doc. 78-9408 Filed 4-5-78; 12:04 pm]

ATTACHMENT 6



GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

JUN 19 1981

Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your request for the views of this Department with respect to H.R. 2485, a bill:

"To extend duty-free treatment to imports of chipper knife steel."

If enacted, H.R. 2485 would amend the Tariff Schedules of the United States (TSUS) to eliminate the Column-1, most-favored-nation duty applicable to imports of certain alloy tool steels generally defined as chipper knife steel. The statutory (column-2) duty would not be affected by the bill. Imports of chipper knife steel are classified under TSUS item 606.93 and are dutiable at 10.5 percent ad valorem plus additional duties assessed on certain alloys contained in the steel. This column-1 tariff was reduced temporarily in December 1980 by PL 96-609, and imports of chipper knife steel now enter under TSUS 911.29 at a rate of 4.6 percent ad valorem. This duty reduction expires on September 30, 1982, when the ad valorem component of the duty is scheduled to return to 9.6 percent. The duty on chipper knife steel is being reduced in stages under agreements reached in the Multilateral Trade Negotiations and in 1987 the final duty rate provided for TSUS 606.93 will be 6 percent ad valorem plus additional duties.

The Department of Commerce opposes enactment of H.R. 2485 as presently drafted.

A tariff anomaly that permits the finished chipper knife to enter the United States under TSUS 649.6750 at a rate of 4.7 percent ad valorem (being reduced to 3.7 percent ad valorem by 1987) was a factor prompting Congress to enact the duty reduction for the imported raw material. Equalizing the tariff rates resolved this anomalous situation; however, once the duty suspension expires in 1982, and the chipper knife steel tariff returns to 9.6 percent, the anomaly will recur.

The temporary reduction of duties on chipper knife steel should have a beneficial effect on the domestic chipper knife industry. Previously, we understood that chipper knife producers were largely dependent on imports to meet their raw material requirements and that most U.S. producers favored higher-profit steels and did not produce chipper knife steel in sufficient quantities on a consistent basis. However, we are informed that several domestic steel companies now are able and willing to produce chipper knife steel at prices competitive with imported chipper knife steel. Elimination of the tariff on chipper knife steel would erode the incentive that domestic chipper knife manufacturers have to purchase domestic chipper knife steel.

We note that non-price factors, such as the availability and security of supply, will encourage knife manufacturers to continue to utilize a domestic source. Thus, the chances of serious adverse effects of the duty reduction should be minimized. Nonetheless, the duty reduction has not been in effect long enough to gauge the impact of this legislation on domestic producers and consumers of chipper knife steel. Therefore, the Department does not favor duty elimination at this time.

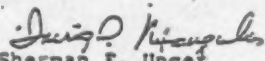
However, the Department would not object to an amendment which would reduce the total duty on chipper knife steel to 3.7 percent ad valorem, thereby minimizing the anomaly which would recur upon expiration of the duty reduction. When the Congress enacted the duty reduction on chipper knife steel, it recognized the relationship between the raw material (chipper knife steel) and the more processed product (chipper knives), and established a tariff for the steel slightly below that for chipper knives. The Department believes that Congress should maintain this differential and reduce the duties on chipper knife steel as the duties on chipper knives are being reduced. Such a duty reduction could occur in the following manner, which is a one-year acceleration of the staging of the tariff reductions on chipper knives.

	1982	1983	1984	1985	1986	1987
605.93	4.4%	4.2%	4.0%	3.9%	3.7%	3.7%

Total duties assessed in 1980 on TSUS 606.93 were \$249,997.

We have been advised by the Office of Management and Budget that there would be no objection to the submission of this report to the Congress from the standpoint of the Administration's program.

Sincerely,

for 
Sherman E. Unger
General Counsel

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